

## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.**

**IMPORTANT: You must read the following before continuing.** The following applies to the offering circular following this page (the “Offering Circular”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.**

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, ELECTRONICALLY OR OTHERWISE, AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to Credit Suisse Securities (Europe) Limited, Standard Chartered Bank, Wing Lung Bank Limited, Industrial and Commercial Bank of China (Asia) Limited, ABCI Capital Limited, CCB International Capital Limited, China Merchants Securities (HK) Co., Limited, Citigroup Global Markets Limited, DBS Bank Ltd., Jefferies Hong Kong Limited and Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch (the “Joint Lead Managers”) that you and any customers you represent are not, and the electronic mail address that you gave the Joint Lead Managers to which this e-mail has been delivered is not, located in the United States and that you consent to delivery of such Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents (each as defined in the attached Offering Circular) to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee, the Agents, nor any person who controls any of them, nor their respective directors, officers, employees, representatives nor agents, nor affiliates of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**Actions that you may not take:** If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

# HUARONG FINANCE CO., LTD.

(incorporated in the British Virgin Islands with limited liability)

**U.S.\$300,000,000 3.00 PER CENT. GUARANTEED NOTES DUE 2017**  
**U.S.\$1,200,000,000 4.00 PER CENT. GUARANTEED NOTES DUE 2019**

**UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY**  
**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
(華融 (香港) 國際控股有限公司)

(incorporated in Hong Kong with limited liability)

**AND WITH THE BENEFIT OF A KEEPWELL DEED AND**  
**A DEED OF EQUITY INTEREST PURCHASE, INVESTMENT AND**  
**LIQUIDITY SUPPORT UNDERTAKING BY**



**中国华融资产管理股份有限公司**

**CHINA HUARONG ASSET MANAGEMENT CO., LTD.**

(incorporated in the People's Republic of China with limited liability)

**ISSUE PRICE FOR THE 2017 NOTES: 99.636 PER CENT.**

**ISSUE PRICE FOR THE 2019 NOTES: 99.655 PER CENT.**

The 3.00 per cent. Guaranteed Notes due 2017 (the “**2017 Notes**”) will be issued in the aggregate principal amount of U.S.\$300,000,000 and the 4.00 per cent. Guaranteed Notes due 2019 (the “**2019 Notes**”, together with the 2017 Notes, the “**Notes**”) will be issued in the aggregate principal amount of U.S.\$1,200,000,000 by Huarong Finance Co., Ltd. (the “**Issuer**”) and are in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be unconditionally and irrevocably guaranteed (the “**Guarantee of the Notes**”) by Huarong (HK) International Holdings Limited (華融 (香港) 國際控股有限公司) (the “**Guarantor**”). The Issuer is a direct, wholly-owned subsidiary of the Guarantor, which in turn is a wholly-owned subsidiary of China Huarong Asset Management Co., Ltd. (the “**Company**”).

The Issuer, the Guarantor and the Company will enter into a keepwell deed on or about 17 July 2014 (the “**Keepwell Deed**”) and a deed of equity interest purchase, investment and liquidity support undertaking on or about 17 July 2014 (the “**Deed of Undertaking**”) with The Bank of New York Mellon, London Branch (the “**Trustee**”) as trustee of the Notes as further described in “*Offer Structure — The Keepwell Deed*”, “*Offer Structure — The Deed of Undertaking*”, “*Description of the Keepwell Deed*” and “*Description of the Deed of Undertaking*”. **Neither the Keepwell Deed nor the Deed of Undertaking constitutes a direct or indirect guarantee of the Notes by the Company.**

The 2017 Notes will bear interest from 17 July 2014 at the rate of 3.00 per cent. per annum. Interest on the 2017 Notes is payable in arrear on 17 January and 17 July in each year, commencing with the first Interest Payment Date (as defined in the terms and conditions of the 2017 Notes, the “**Terms and Conditions of the 2017 Notes**”) falling on 17 January 2015.

The 2019 Notes will bear interest from 17 July 2014 at the rate of 4.00 per cent. per annum. Interest on the 2019 Notes is payable in arrear on 17 January and 17 July in each year, commencing with the first Interest Payment Date (as defined in the terms and conditions of the 2019 Notes, the “**Terms and Conditions of the 2019 Notes**”, together with the Terms and Conditions of the 2017 Notes, the “**Terms and Conditions**”) falling on 17 January 2015.

The Notes of each series will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Guarantee of the Notes will constitute a direct, general and unconditional obligation of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments on the Notes will be made without withholding or deduction for taxes of the British Virgin Islands, the PRC or Hong Kong (each as defined herein) to the extent described in “*Terms and Conditions of the 2017 Notes — Taxation*” and “*Terms and Conditions of the 2019 Notes — Taxation*”.

Unless previously redeemed, or purchased and cancelled as provided herein, the Issuer will redeem each 2017 Note at its principal amount on 17 July 2017 and each 2019 Note at its principal amount on 17 July 2019. At any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (as defined in the Terms and Conditions) (which notice shall be irrevocable), the Issuer may redeem the Notes in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that the Issuer or the Guarantor has or will become obliged to pay Additional Amounts (as defined in the Terms and Conditions) as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction (as defined in the Terms and Conditions) or any political subdivision or any authority thereof or therein having power to tax, and such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it. At any time following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions), each Noteholder will have the right, at such Noteholder’s option, to require the Issuer to redeem all but not some only of such Noteholder’s Notes on the Put Settlement Date (as defined in the Terms and Conditions) at 101 per cent. of their principal amount together with accrued interest to such Put Settlement Date. See “*Terms and Conditions of the 2017 Notes — Redemption and Purchase*” and “*Terms and Conditions of the 2019 Notes — Redemption and Purchase*”.

Application will be made to The Stock Exchange of Hong Kong Limited (“**HKSE**” or the “**Hong Kong Stock Exchange**”) for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only and such permission is expected to become effective on or about 18 July 2014.

**Investing in the Notes involves certain risks. See “*Risk Factors*” beginning on page 19 for a description of certain factors to be considered in connection with an investment in the Notes.**

**The Notes and the Guarantee of the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and, subject to certain exceptions, may not be offered or sold within the United States and are only being offered and sold outside the United States in compliance with Regulation S under the Securities Act (“**Regulation S**”). For a description of these and certain restrictions on offers and sales of the Notes and the Guarantee of the Notes and the distribution of this Offering Circular, see “*Subscription and Sale*”.**

Each series of Notes will be represented by beneficial interests in a global note certificate (each a “**Global Note Certificate**”, together the “**Global Note Certificates**”) in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 17 July 2014 (the “**Issue Date**”) with a common depository for, Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream, Banking, *société anonyme* (“**Clearstream, Luxembourg**”, together with Euroclear, the “**Clearing Systems**”). Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, individual certificates for Notes of the relevant series will not be issued in exchange for interests in the relevant Global Note Certificate.

The Notes are expected to be rated “**Baa1**” by Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“**Moody’s**”), “**BBB+**” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“**S&P**”) and “**A**” by Fitch (Hong Kong) Limited, and its successors (“**Fitch**”) and the Company has been rated “**A3**” by Moody’s, “**A-**” by S&P and “**A**” by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## *Joint Global Coordinators*

**Credit Suisse   Standard Chartered Bank   Wing Lung Bank Limited   Industrial and Commercial Bank of China (Asia) Limited**

## *Joint Bookrunners and Joint Lead Managers*

**Credit Suisse   Standard Chartered Bank   Wing Lung Bank Limited   Industrial and Commercial Bank of China (Asia) Limited   ABC International**  
**CCB International   China Merchants Securities (HK)   Citigroup   DBS Bank Ltd.   Jefferies   Shanghai Pudong Development Bank, Hong Kong Branch**

Offering Circular dated 9 July 2014

## IMPORTANT NOTICE

Each of the Issuer, the Guarantor and the Company, having made all reasonable enquiries, accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Company and its subsidiaries (including the Issuer and the Guarantor) (collectively, the “**Group**”), the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking which is material in the context of the issue and offering of the Notes (including all information which, according to the particular nature of the Issuer, the Guarantor, the Company, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor, the Company, the Group and of the rights attaching to the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking), (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Company, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking are in all material respects true and accurate and not misleading, (iii) the opinions and intentions relating to the Issuer, the Guarantor, the Company and the Group expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other material facts relating to the Issuer, the Guarantor, the Company, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking, the omission of which would, in the context of the issue and offering of the Notes and the giving of the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking, make any statement in this Offering Circular, in light of the circumstances under which they were made, misleading, and (v) all reasonable enquiries have been made by the Issuer, the Guarantor and the Company to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer, the Guarantor and the Company solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee and the Agents (as defined in the Terms and Conditions) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, the Guarantor giving the Guarantee of the Notes and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see “*Subscription and Sale*”. This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving information with regard to the Issuer, the Guarantor, the Company and the Group. The Issuer, the Guarantor and the Company accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

No person has been or is authorised in connection with the issue, offer, sale or distribution of the Notes to give any information or to make any representation concerning the Issuer, the Guarantor, the Company, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed or the Deed of Undertaking other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Company, the Group, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Company or the Group, or any of them since the date hereof

or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates to subscribe for or purchase, any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer, the Guarantor and the Company in connection with the offering of the Notes exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor, the Company and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Circular is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Notes, the Guarantee of the Notes, the Keepwell Deed or the Deed of Undertaking, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors or advisers have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Guarantor, the Company, the Group, the issue and offering of the Notes or the giving of the Guarantee of the Notes, the Keepwell Deed or the Deed of Undertaking. Each of the Joint Lead Managers, the Trustee, the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers undertakes to review the financial condition or affairs of the Issuer, the Guarantor, the Company or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, directors or advisers.

This Offering Circular should not be considered as a recommendation by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer, the Guarantor or the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.



Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult his or her adviser.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, EACH OF THE JOINT LEAD MANAGERS ACTING AS THE STABILISING MANAGER (COLLECTIVELY, THE “STABILISING MANAGERS”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND DIRECTIVES, OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Company, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Company and the Group and the terms of the offering of the Notes, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes. The Issuer, the Guarantor, the Company, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer, the Guarantor and the Company believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or their respective directors, advisers and affiliates, and none of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or their respective directors and affiliates, advisers or employees makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

## PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Group as at and for the year ended 31 December 2013 (the “**Group’s Financial Statements**”) have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in the PRC (“**PRC GAAP**”), except for certain disclosure requirements under PRC GAAP, and have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, Beijing Branch. For more information, see Note III “*Basis of Preparation*” to the Group’s Financial Statements.

The Group’s Financial Statements have only been prepared in Chinese and an English translation of which (the “**Financial Statements Translation**”) has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Group’s Financial Statements and the Financial Statements Translation, the Group’s Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited financial statements, and is qualified in its entirety by, and is subject to the more detailed information and the financial information set out or referred to in, the Group’s Financial Statements, which are available at <http://www.chinamoney.com.cn/fe/Info/7567143>. Neither the Joint Lead Managers nor their respective affiliates, directors and advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

The audited consolidated financial statements of the Guarantor and its subsidiaries as at and for the period ended 31 December 2013 (the “**Guarantor’s Financial Statements**”) have been prepared and presented in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) and have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

PRC GAAP differs in certain material respects from the International Financial Reporting Standards (“**IFRS**”). For a discussion of certain differences between PRC GAAP and IFRS, see “*Summary of Significant Differences between PRC GAAP and IFRS*”.

## CERTAIN DEFINITIONS AND CONVENTIONS

Unless the context otherwise requires, references in this Offering Circular to “**Hong Kong dollars**”, “**HK dollars**” or “**HK\$**” are to the lawful currency of Hong Kong, “**Renminbi**”, “**CNY**” and “**RMB**” are to the lawful currency of the PRC, “**U.S. dollars**”, “**U.S.\$**” and “**USD**” are to the lawful currency of the United States of America (the “**United States**”), “**PRC**” and “**China**” mean the People’s Republic of China which for the purpose of this Offering Circular excludes Hong Kong, Macau and Taiwan, “**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC, and “**Macau**” means the Macau Special Administrative Region of the PRC.

Unless the context otherwise requires, references in this Offering Circular to the “**Terms and Conditions of the 2017 Notes**” and “**Terms and Conditions of the 2019 Notes**” are to the terms and conditions governing the 2017 Notes and the 2019 Notes, as respectively set out in “*Terms and Conditions of the 2017 Notes*” and “*Terms and Conditions of the 2019 Notes*” (collectively, the “**Terms and Conditions**”).

In this Offering Circular, where information has been presented in thousands, millions, or billions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Solely for convenience, this Offering Circular contains translations of certain Hong Kong dollar amounts and Renminbi amounts into U.S. dollars amounts. Unless indicated otherwise, the translation of Hong Kong dollar amounts and Renminbi amounts into U.S. dollars amounts has been made at the rate of HK\$7.7517 to U.S.\$1.00 and RMB6.2180 to U.S.\$1.00, respectively, the exchange rates set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 27 June 2014. These translations should not be construed as representations that the Hong Kong dollar or Renminbi amounts could actually be converted into any U.S. dollars amounts at the rates indicated or at all. For further information relating to exchange rates, see “*Exchange Rate Information*”.

Unless specified otherwise, references in this Offering Circular to, and financial and other information presented with respect to, the Group are to such information of the Company compiled on a consolidated basis.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates titles and the like are translations of their Chinese names and are included for identification purposes only.

In this Offering Circular, references to:

- “**ABC**” are to Agricultural Bank of China;
- “**AMCs**” are to asset management companies;
- the “**Board**” are to the Board of Directors of the Company;
- the “**Board of Supervision**” are to the Board of Supervision of the Company;
- “**BOC**” are to Bank of China;
- “**BOCOM**” are to Bank of Communications;
- the “**CBRC**” are to the China Banking Regulatory Commission;
- the “**CBRC Measures**” are to the Measures for the Management of Capital of Commercial Banks formulated by the CBRC in 2012;
- “**CCB**” are to China Construction Bank;
- “**CDB**” are to China Development Bank;
- “**China Life**” are to China Life Insurance Co., Ltd.;
- the “**Company**” are to China Huarong Asset Management Co., Ltd.;
- the “**CPC**” are to the Communist Party of China;
- the “**CSRC**” are to the China Securities Regulatory Commission;
- “**DES**” are to debt-to-equity swap;
- the “**Four AMCs**” are to the Group, Cinda Asset Management Co., Ltd., China Great Wall Asset Management Corporation and China Orient Asset Management Corporation;
- the “**Group**” are to the Company and its subsidiaries taken as a whole;
- the “**Guarantor**” are to Huarong (HK) International Holdings Limited;
- “**HRXJ Bank**” are to Huarong Xiangjiang Bank Co., Ltd. (华融湘江银行股份有限公司);
- “**Huarong Corporation**” are to China Huarong Asset Management Corporation, the predecessor entity to the Company;
- “**Huarong Financial Leasing**” are to Huarong Financial Leasing Co., Ltd. (华融金融租赁股份有限公司);
- “**Huarong Securities**” are to Huarong Securities Co., Ltd.;
- “**Huarong Trust**” Huarong International Trust Co., Ltd.;
- “**ICBC**” are to Industrial and Commercial Bank of China;
- the “**Issuer**” are to Huarong Finance Co., Ltd.;
- the “**MOF**” are to the Ministry of Finance of the PRC;

- the “**MOFCOM**” are to the Ministry of Commerce of the PRC;
- the “**NDRC**” are to the National Development and Reform Commission of the PRC;
- “**NPA**s” are to non-performing assets;
- “**NPL**s” are to non-performing loans;
- the “**PBOC**” are to the People’s Bank of China;
- “**Rongde**” are to Huarong Rongde Asset Management Co., Ltd.;
- the “**SAFE**” are to the State Administration of Foreign Exchange of the PRC;
- the “**Senior Management Team**” are to the senior management team of the Company;
- “**SME**s” are to small and medium enterprises;
- “**SOE**s” are to state-owned enterprises; and
- the “**State Council**” are to the State Council of the PRC.



## FORWARD-LOOKING STATEMENTS

This Offering Circular includes “forward-looking statements”. All statements other than statements of historical fact contained in this Offering Circular, including, without limitation, those regarding the Group’s future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words “believe”, “expect”, “aim”, “intend”, “will”, “may”, “anticipate”, “seek”, “should”, “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group’s control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause the Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- the risks inherent to the industry in which the Group operates;
- the business and operating strategies and the future business development of the Group;
- the general economic, political, social conditions and developments in the PRC;
- changes in competitive conditions and the Group’s ability to compete under these conditions;
- the Group’s operations and business prospects;
- the Group’s capital expenditure and development plans;
- the Group’s expectations with respect to its ability to acquire and maintain regulatory qualifications required to operate its business;
- the availability and charges of bank loans and other forms of financing;
- the Group’s financial condition and results of operations;
- the Group’s dividend distribution plans;
- changes in currency exchange rates;
- macroeconomic policies of the PRC government; and
- other factors beyond the Group’s control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in “*Risk Factors*” and elsewhere in this Offering Circular. The Issuer, the Guarantor and the Company caution investors not to place undue reliance on these forward-looking statements which reflect their managements’ view only as at the date of this Offering Circular.

None of the Issuer, the Guarantor or the Company undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur.

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## SUMMARY

*This summary does not contain all the information that may be important to prospective investors in deciding to invest in the Notes. Prospective investors should read the entire Offering Circular, including the section entitled “Risk Factors” and the financial statements and related notes thereto, before making an investment decision.*

### THE ISSUER

The Issuer was incorporated as a company with limited liability on 19 May 2014 under the laws of the British Virgin Islands. The registered office of the Issuer is at c/o Maples Corporate Services (BVI) Limited, Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands. See “*Description of the Issuer*”.

### THE GUARANTOR

The Guarantor is a wholly-owned subsidiary of the Company. The Guarantor was incorporated in Hong Kong on 2 January 2013. In late May 2014, the Guarantor received HK\$372.95 million through indirect capital injection by the Company, with a proposed new issue of 370 million shares, and the filing and other formalities in relation to the capital injection are currently being carried out. As at the date of this Offering Circular, the Guarantor has an issued share capital of HK\$50 million comprising 50 million shares in issue. The Guarantor’s registered address is at Unit 1504-1506, 15F, Office Tower Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

The Guarantor is the primary offshore holding platform and investment and financing platform of the Group and plays a key role in the internationalisation process of the Group through leveraging on the projects, clientele and branding of the Company to effect synergies, broaden collaboration and improve the operational mechanism.

The Guarantor is licensed as a money lender in accordance with the Money Lenders Ordinance (Cap. 163) of Hong Kong. The Guarantor will, from time to time, consider opportunities to make strategic investments or acquire other entities that cover businesses requiring licences in Hong Kong that are complimentary to the Guarantor’s business scope. In particular, the Guarantor is evaluating the acquisition of an interest in an entity that is licensed to engaged in asset management, financing, securities and financial advisory services. See “*Description of the Guarantor*”.

### THE GROUP

The Company is a leading AMC and one of the Four AMCs, which are the four largest state-owned AMCs in the PRC. As at 31 December 2013, the Group ranked first among the Four AMCs in terms of total assets owned on a consolidated basis.

The principal businesses of the Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

- Distressed asset management — Distressed asset management is the Group’s core business. The Group’s distressed asset management operations involve the acquisition, disposal, management and investment of NPAs stripped from financial institutions and other enterprises in the PRC through public bidding or private contractual arrangements. The principal areas of operations of the Group’s asset management business are distressed asset disposals, restructuring and DES.
- Financial intermediary services — Financial intermediary services mainly include entrusted distressed asset management, custody and liquidation and advisory services. The Group also provides consultancy services.
- Principal investments — The Group focuses on equity investments and fixed income investments. The Group generates revenue from its equity investments primarily through capital gains when it exits through an initial public offering or share sale by its portfolio company. For its fixed income investments, the Group invests its capital in financial products, which in turn will be invested in target enterprises, and collects principal and yield upon maturity.
- Banking — The Group conducts its banking business through the Company’s subsidiary, HRXJ Bank. HRXJ Bank’s principal businesses include corporate banking, retail banking and SME financing.

- Financial leasing — The Group conducts its financial leasing business through the Company's subsidiary, Huarong Financial Leasing. Services offered by Huarong Financial Leasing include direct leasing, leaseback financing, operating leasing, hedging leasing, custodian leasing, transfer leasing and combined leasing.
- Securities — The Group conducts a securities business through its subsidiary, Huarong Securities. Huarong Securities engages in securities services such as domestic equity underwriting, domestic equity trading, foreign exchange trading, securities proprietary trading, warrant trading, margin financing, share pledge repurchasing and entrusted insurance funding.
- Trust — The Group engages in a trust business through Huarong Trust, which was established in 2008 and was one of the earliest trust companies to be established in the PRC. Huarong Trust has offered trust products such as trust loans, equity investment trust products, investment trust products, infrastructure and energy trust, real estate trust and securitisation in a wide range of industries, including, infrastructure and facilities, coal, non-ferrous metals, modern manufacturing, securities, equities, real estate, modern services, strategic new industries and cultural industries.
- Special asset management — The Group, through its joint venture, Rongde, conducts special assets investment by way of private equity investments, mezzanine investments and fixed income investments. In addition to investing with its own capital, Rongde also provides fund management services for private equity funds and mezzanine funds.

The Company has extensive presence across 30 provinces, autonomous regions and municipalities in the PRC, with 30 branches in the PRC. As at 31 December 2013, the Group employed approximately 8,400 employees, of which 1.2 per cent. have obtained a qualification of doctoral degree or above, 17.1 per cent. have obtained a master's degree and 53.9 per cent. have obtained a bachelor's degree. As at 31 December 2013, employees with junior-level professional qualifications approximately accounted for 31.7 per cent. of the total number of employees, employees with mid-level professional qualifications approximately accounted for 53.4 per cent. and employees with senior-level professional qualifications approximately accounted for the remaining 14.9 per cent.

For the years ended 31 December 2012 and 2013, the Group's total operating income was approximately RMB19,653 million and RMB29,283 million, respectively, and the Group's net profit for the corresponding years was approximately RMB6,987 million and RMB10,093 million, respectively. As at 31 December 2012 and 2013, the Group had total assets of approximately RMB315,034 million and RMB408,661 million, respectively.

As at the date of this Offering Circular, the MOF and China Life hold 98.06 per cent. and 1.94 per cent. of the equity interest in the Company, respectively, and the registered capital of the Company was RMB25,836 million.

### **Competitive Strengths**

- Leading position with first-mover advantage in the state-supported AMC market;
- Unique position in the PRC's economy with a strong shareholder base and support from the PRC government;
- Extensive institutional experience, capabilities and innovation in managing distressed assets;
- Large base of high-quality DES assets and extensive equity investment experience allowing for comprehensive and objective valuation of DES assets;
- Comprehensive and collaborative financial services platform with broad customer network;
- Leading risk management capabilities and a comprehensive and effective risk management system;
- Experienced senior management and highly trained employees and professional staff; and
- Steady financial performance and sustainable and prudent business practices.

**Strategies**

- Continue transition to modern corporate governance and stakeholder structure;
- Strengthen its distressed asset management business and enhance investment business profitability;
- Continue the transition to provide an integrated financial services platform; and
- Continue to strengthen comprehensive risk management system with modern management process.

See “*Description of the Group*”.



## OFFER STRUCTURE

*The following is a description of the structure of the offering, which should be read in conjunction with the sections entitled “Risk Factors”, “Terms and Conditions of the 2017 Notes”, “Terms and Conditions of the 2019 Notes”, “Description of the Keepwell Deed” and “Description of the Deed of Undertaking”. Unless otherwise defined herein, defined terms used in this section shall have the meanings given to them in the Terms and Conditions, the Keepwell Deed and the Deed of Undertaking, as the context may require.*

### THE NOTES AND THE GUARANTEE OF THE NOTES

The Notes will be issued by the Issuer. Each series of Notes will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

On the Issue Date, each series of Notes will have the benefit of the Guarantee of the Notes by the Guarantor. Pursuant to the Guarantee of the Notes, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed. The Guarantee of the Notes will constitute a direct, general and unconditional obligation of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Issuer is incorporated in the British Virgin Islands and is a direct, wholly-owned subsidiary of the Guarantor. The Guarantor is incorporated in Hong Kong and is a wholly-owned subsidiary of the Company. The Guarantor represents the primary overseas investment holding Subsidiary and fund raising platform of the Company and all senior management of the Guarantor is appointed by the Company.

### THE KEEPWELL DEED

The Issuer, the Guarantor and the Company will execute the Keepwell Deed (as further described in the section entitled “Description of the Keepwell Deed”) in favour of the Issuer, the Guarantor and the Trustee on the Issue Date.

#### Positioning of the Guarantor; Ownership of the Issuer and the Guarantor

Pursuant to the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee:

- to maintain the Guarantor as the primary overseas investment holding Subsidiary and fund raising platform of the Company and to directly or indirectly appoint all senior management of the Guarantor; and
- to directly or indirectly own and hold all the outstanding shares of each of the Issuer and the Guarantor and not to directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority, in each case, not obtained at the direction or request of the Issuer, the Guarantor or the Company (and which, in the opinion of an independent legal adviser to the Company of international standing, may not be successfully challenged) or as permitted under the Trust Deed.

#### Maintenance of Consolidated Net Worth; Liquidity

Pursuant to the Keepwell Deed, the Company will undertake:

- to procure each of the Issuer and the Guarantor to have a Consolidated Net Worth of at least U.S.\$1.00 at all times;
- to procure each of the Issuer and the Guarantor to have sufficient liquidity to make timely payment of any amounts payable by it under or in respect of the Notes and the Guarantee of the Notes in accordance with the Terms and Conditions and/or the Trust Deed; and
- to procure each of the Issuer and the Guarantor to remain solvent and a going concern at all times under the laws of its respective jurisdiction of incorporation or applicable accounting standards.

## Relevant Indebtedness

Pursuant to the Keepwell Deed, the Company will further undertake to the Trustee:

- that the Company as an issuer shall not create or have any Relevant Indebtedness outside the PRC, unless the Company, subject to it having used all reasonable efforts to obtain all requisite Regulatory Approvals, at the same time or prior thereto without requiring any consent from any Noteholder, (i) provides an irrevocable and unsubordinated guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of the Notes or (ii) offers to exchange the Notes for securities issued or guaranteed by the Company with terms substantially identical to those of the Notes as certified by an Independent Investment Bank and notified in writing to the Trustee;
- that the Company shall comply with Condition 3(a) of the Terms and Conditions as if all references to “the Guarantor” therein shall be replaced with “the Company” and all references to “Guarantor Subsidiary” therein shall be replaced with “Subsidiary”; *provided that* as regards (i) the Issuer and the Guarantor, such Condition will continue to apply to the Guarantor and the Guarantor Subsidiaries; and (ii) the Company and its Subsidiaries (other than the Guarantor and the Guarantor Subsidiaries), the restrictions set forth in such Condition will in addition not apply to any Security Interest upon the Company’s or such Subsidiaries’ property or assets, at any time, to secure any Relevant Indebtedness outside the PRC of the Company or its other Subsidiaries only to the extent that the book value of such property or assets is less than five per cent. of the Total Assets of the Company; and
- that the Company will not create, incur, assume or permit to exist or have outstanding any guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of any Relevant Indebtedness outside the PRC without, subject to it having used all reasonable efforts to obtain all requisite Regulatory Approvals, at the same time or prior thereto and without requiring any consent from any Noteholder, (i) providing to the Notes the same or an equivalent guarantee (or indemnity the economic effect of which shall be similar to a guarantee) or (ii) offering to exchange the Notes for securities issued or guaranteed by the Company with terms substantially identical to those of the Notes as certified by an Independent Investment Bank and notified in writing to the Trustee,

*provided that* if Regulatory Approvals are required in order to effect the action set out in the first and third paragraphs above, the Company shall be required to use all reasonable efforts to obtain all requisite Regulatory Approvals, *provided further that*, if, having used such efforts, it is unable to obtain such Regulatory Approvals, (in the case of the first paragraph) the Company shall be permitted to create or have such Relevant Indebtedness outside the PRC or (in the case of the third paragraph) the Company shall be permitted to create, incur, assume or permit to exist or have outstanding a guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of such Relevant Indebtedness outside the PRC, without complying with any further obligations under the first and third paragraphs above (as the case may be).

For the purposes of the Keepwell Deed, “**Total Assets**” means the consolidated total assets of the Company and its Subsidiaries calculated by reference to the then consolidated financial statements of the Company (which can be internal financial statements) if not audited, and “**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Company (at the expense of the Company) and notified to the Trustee in writing.

## Other Covenants

Pursuant to the Keepwell Deed, the Company will undertake:

- to procure that the articles of association of each of the Issuer and the Guarantor shall not be amended in a manner that is, directly or indirectly, adverse to Noteholders in any material respect;
- to cause each of the Issuer and the Guarantor to remain in full compliance with the Terms and Conditions of the 2017 Notes, the Terms and Conditions of the 2019 Notes, the Guarantee of the Notes, the Trust Deed, the Agency Agreement, the Deed of Undertaking and all applicable rules and regulations in the British Virgin Islands, Hong Kong and England, in each case in all material respects;
- promptly to take any and all action necessary to comply with its obligations under the Keepwell Deed, the Trust Deed, the Agency Agreement and the Deed of Undertaking in all material respects;

- to ensure that the Issuer has sufficient funds to meet its obligations with respect to any and all fees, expenses and obligations of the Issuer, including but not limited to fees and expenses with respect to the corporate formation and administration of the Issuer;
- to cause each of the Issuer and the Guarantor to take all action necessary in a timely manner to comply with its obligations under the Keepwell Deed and the Deed of Undertaking in all material respects;
- to ensure that the Guarantor and the Issuer will comply with Condition 3(c) of the Terms and Conditions;
- to procure that the Issuer will not carry on any business activity whatsoever other than the activities in connection with the issue of notes (such activities in connection with the issue of notes shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the notes (the “**Proceeds of the Notes**”) to only either the Company or any Subsidiary of the Company located in a jurisdiction outside the PRC), and to cause such borrower to pay the interest and principal in respect of such intercompany loan on time; and
- to the extent a Subsidiary lends, novates or assigns any of the Proceeds of the Notes it receives from the Issuer, to cause such Subsidiary to lend, novate or assign such Proceeds of the Notes only to other Subsidiaries.

Notwithstanding anything contained in the Keepwell Deed, if, and to the extent that the Company is required to obtain any Regulatory Approvals in order to comply with its obligations under the Keepwell Deed, the performance of such obligation will always be qualified by, and subject to, the Company having obtained such Regulatory Approvals. In this regard, the Company will undertake in the Keepwell Deed to use all reasonable efforts to obtain such Regulatory Approvals within the time stipulated by the relevant Approval Authorities, if applicable.

The Keepwell Deed will not, and nothing therein contained and nothing done pursuant thereto by the Company will be deemed to constitute, a guarantee by, or any legal binding obligation of, the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction. Accordingly, pursuant to the terms of the Keepwell Deed, the Company will only be obliged to make sufficient funds available to the Issuer and the Guarantor, rather than assume the payment obligation as in the case of a guarantee. See “*Risk Factors — Neither the Keepwell Deed nor the Deed of Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Notes and the Guarantee of the Notes.*”

## THE DEED OF UNDERTAKING

The Company will execute the Deed of Undertaking (as further described in the section entitled “*Description of the Deed of Undertaking*”) in favour of the Issuer, the Guarantor and the Trustee on the Issue Date. While the Keepwell Deed contains a general obligation requiring the Company to ensure that the Issuer and the Guarantor have sufficient liquidity to make timely payment of any amounts payable by each of them under or in respect of the Notes and the Guarantee of the Notes, the Deed of Undertaking provides specified means by which the Company could assist the Issuer and the Guarantor in meeting their respective obligations under the Notes, the Guarantee of the Notes and the Trust Deed upon the occurrence of an Event of Default.

Under the Deed of Undertaking, the Company will undertake to the Issuer, the Guarantor and the Trustee that upon receipt of a written notice from the Trustee following the occurrence of an Event of Default under the Notes (the “**Trigger Notice**”), the Company will:

- grant a U.S. dollars loan to the Issuer and/or the Guarantor (the “**Loan**”) and procure remittance of the Shortfall Amount (as defined below) as a loan to the Issuer and/or the Guarantor;
- invest (either by itself or through a Subsidiary of the Company as designated by it (the “**Designated Investor**”)) in the Issuer or, as the case may be, the Guarantor (by equity investment or otherwise) in an amount equal to the Shortfall Amount on the Investment Closing Date (the “**Investment**”); and
- purchase or procure an Onshore Subsidiary of the Company to purchase (the “**Purchaser**”) Equity Interests held by the Guarantor or any other Offshore Subsidiary of the Company (the “**Purchase**”),

in each case, subject to it having obtained all relevant Regulatory Approvals (which the Company will undertake to use all reasonable efforts to obtain), so as to enable the Guarantor or the Issuer to make payment in full of any outstanding amounts as they fall due under the Trust Deed and the Notes (including any interest accrued but unpaid on the Notes).

For the purposes of the Deed of Undertaking, “**Shortfall Amount**” means the aggregate of the following amounts: (i) an amount in U.S. dollars sufficient to enable the Issuer and the Guarantor to discharge in full their respective obligations under the Notes, the Guarantee of the Notes, the Agency Agreement and the Trust Deed that are due and owing as at the date of such Trigger Notice (including without limitation the principal amount of the Notes then outstanding that is due and owing as at the date of such Trigger Notice and any interest due and unpaid on the Notes up to but excluding the date of such Trigger Notice); plus (ii) an amount equal to U.S.\$28,500,000, being the interest payable in respect of the immediately following interest period on the 2017 Notes and the 2019 Notes, if any; plus (iii) all costs, fees and expenses and other amounts payable in U.S. dollars to the Trustee and/or the Agents under or in connection with the Notes, the Guarantee of the Notes, the Trust Deed, the Agency Agreement, the Keepwell Deed and/or the Deed of Undertaking that are due and owing as at the date of such Trigger Notice plus provisions for fees and expenses of the Trustee and/or Agents which may be incurred after the date of such Trigger Notice in accordance with the Notes, the Guarantee of the Notes, the Agency Agreement and the Trust Deed, as notified by the Trustee in such Trigger Notice, in each case, in connection with the recovery of amounts due under items (i) and (ii) above.

The purchase price for the relevant Equity Interest(s) being the subject of the Purchase (the “**Purchase Price**”) will be determined by the Company, in accordance with any applicable PRC laws and regulations effective at the time of determination and the other applicable terms relating to the Purchase, *provided that* the relevant Purchase Price shall be no less than the Shortfall Amount.

The Company will, and will procure each Relevant Transferor to, use all reasonable efforts to do all such things and take all such actions as may be necessary or desirable to procure the completion of the Purchase on the relevant Purchase Closing Date, providing information and applying with a view to obtaining for Relevant Approvals as soon as reasonably practicable within three months from the date of the Trigger Notice and procure the remittance of the sum of the Purchase Price to or to the order of the Relevant Transferor(s).

The Company will undertake to, and will procure the Issuer or, as the case may be, the Guarantor to, use its reasonable efforts to do all such things and take all such actions as may be necessary to obtain the relevant Regulatory Approvals as soon as reasonably practicable, to procure the completion of the Investment no later than the date falling 120 days from the date of the Trigger Notice and to procure the remittance of the sum of the Shortfall Amount to or to the order of the Issuer (or the Guarantor, as the case may be).

The obligations of the Company under the Deed of Undertaking will be suspended if any of the Company, the Guarantor and the Issuer receives a notice in writing from the Trustee stating either that, the Trustee has received a notice in writing from the paying agent under the Notes that all of the payment obligations of the Issuer and the Guarantor under the Notes, the Guarantee of the Notes and the Trust Deed that are then due and owing have been satisfied in full and the Trustee is satisfied that all amounts due and payable to the Trustee under the Trust Deed have been satisfied in full, or that the Event of Default resulting in the service of such Trigger Notice from the Trustee has been waived by the Trustee in accordance with the Trust Deed.

The Trustee may, at any time in its sole and absolute discretion, discuss with the Company on the choice(s) of remedy(ies) under the Deed of Undertaking based on the then facts and circumstances. The Company will acknowledge in the Deed of Undertaking that such option to discuss is completely at the discretion of the Trustee and any failure or election by the Trustee to not undertake such discussions will not in any manner limit the Trustee’s ability to take remedial or enforcement action against the Company.

Notwithstanding anything contained in the Deed of Undertaking, if, and to the extent that the Company is required to obtain any Regulatory Approvals in order to comply with its obligations therein, the performance of such obligation will always be qualified by, and subject to, the Company having obtained such Regulatory Approvals. In this regard, the Company will undertake to use all reasonable efforts to obtain such Regulatory Approvals within the time stipulated by the relevant Approval Authorities, if applicable.

The Deed of Undertaking will not, and nothing therein contained and nothing done pursuant thereto by the Company will be deemed to constitute, a guarantee by, or any legal binding obligation of, the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction. See “*Risk Factors — Neither the Keepwell Deed nor the Deed of Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Notes and the Guarantee of the Notes*”, “*Risk Factors — Performance by the Company of its undertaking under the Deed of Undertaking is subject to approvals of the PRC governmental authorities and certain limitations*” and “*Risk Factors — Performance by the Company of its undertaking under the Deed of Undertaking may be subject to consent from third party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third party creditors*”.

## THE OFFERING

*The following summary contains some basic information about the Notes and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the 2017 Notes” and “Terms and Conditions of the 2019 Notes” shall have the same meanings in this summary. For a complete description of the terms of the Notes, see “Terms and Conditions” in this Offering Circular.*

Issuer.....	Huarong Finance Co., Ltd.
Company .....	China Huarong Asset Management Co., Ltd.
Guarantor .....	Huarong (HK) International Holdings Limited. (華融 (香港) 國際控股有限公司)
2017 Notes.....	U.S.\$300,000,000 3.00 per cent. Guaranteed Notes due 2017.
2019 Notes .....	U.S.\$1,200,000,000 4.00 per cent. Guaranteed Notes due 2019.
Guarantee of the Notes .....	Payment of all sums from time to time payable by the Issuer in respect of the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price.....	99.636 per cent. for the 2017 Notes and 99.655 per cent. for the 2019 Notes.
Form and Denomination .....	The Notes will be issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof.
Interest .....	<p>The 2017 Notes will bear interest from and including 17 July 2014 at the rate of 3.00 per cent. per annum, payable in arrear on 17 January and 17 July in each year.</p> <p>The 2019 Notes will bear interest from and including 17 July 2014 at the rate of 4.00 per cent. per annum, payable in arrear on 17 January and 17 July in each year.</p>
Issue Date .....	17 July 2014.
Maturity Date.....	<p>For the 2017 Notes, 17 July 2017.</p> <p>For the 2019 Notes, 17 July 2019.</p>
Status of the Notes .....	Each series of the Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.



Status of the Guarantee of the Notes.....	<p>The Guarantee of the Notes constitutes a direct, general and unconditional obligation of the Guarantor which will at all times rank at least <i>pari passu</i> with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantor is a holding company, and accordingly, payments under the Guarantee of the Notes are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer).</p> <p>See “<i>Risk Factors — Risks Relating to the Notes and the Guarantee of the Notes</i>”.</p>
Limitation on Security Interest.....	The Notes will contain a “ <i>Limitation on Security Interest</i> ” provision as further described in Condition 3(a) of the Terms and Conditions.
Redemption at Maturity .....	Unless previously redeemed, or purchased and cancelled, each series of Notes will be redeemed on the relevant Maturity Date at their principal amount.
Taxation .....	<p>All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC or Hong Kong (each, a “<b>Relevant Taxing Jurisdiction</b>”) or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer or the Guarantor as a result of the Issuer or the Guarantor being deemed by PRC tax authorities to be a PRC tax resident at the rate of up to (and including) 10 per cent. (the “<b>Applicable Rate</b>”), the Issuer or (as the case may be) the Guarantor will pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. In the event that the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate; or (ii) by or within the British Virgin Islands or Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the “<b>Additional Amounts</b>”) as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note in the circumstances set out in Condition 7 (<i>Taxation</i>) of the Terms and Conditions.</p>

Redemption for Taxation Reasons ....

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with the Terms and Conditions (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (A) the Issuer or the Guarantor has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 9 July 2014, and (B) such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Redemption for Change of Control ..

At any time following the occurrence of a Change of Control Triggering Event (as defined below), each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest to such Put Settlement Date.

A "**Change of Control Triggering Event**" occurs when there is a Change of Control, *provided however, that*, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline. No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

A "**Change of Control**" means the occurrence, at any time, of any of the following:

- (a) the Company ceasing to own and control, directly or indirectly 100 per cent. of the Voting Shares (as defined in the Terms and Conditions) of the Guarantor; or
- (b) the Guarantor ceasing to own and control directly 100 per cent. of the Voting Shares of the Issuer; or
- (c) the government of the PRC or Persons (as defined in the Terms and Conditions) controlled by the government of the PRC ceasing to Control the Company.

"**Control**" means directly or indirectly (a) owning and controlling at least 50.1 per cent. of the Voting Shares of the Company; or (b) nominating or appointing a majority of the members of the Company's board of directors or other equivalent or successor governing body; or (c) possessing the ability or power to direct the management policies of the Company.

**“Investment Grade”** means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any internationally recognised rating agency or agencies, as the case may be, which shall have been designated by the Guarantor as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be.

**“Rating Agencies”** means (a) S&P; (b) Moody’s; (c) Fitch; and (d) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, the Guarantor and the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.

**“Rating Date”** means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (a) a Change of Control and (b) a public notice of the occurrence of a Change of Control or of the intention by any Person or Persons to effect a Change of Control.

**“Rating Decline”** means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by any Person or Persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

- (a) in the event the Notes are (i) on the Rating Date (A) rated by three Ratings Agencies and (B) rated Investment Grade by each such Rating Agency, and (ii) cease to be rated Investment Grade by at least two of such Rating Agencies; or
- (b) in the event the Notes are (i) on the Rating Date (A) rated by two but not more Ratings Agencies and (B) rated Investment Grade by each such Rating Agency, and (ii) cease to be rated Investment Grade by both such Rating Agencies.

Events of Default.....

Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions, the Trustee at its discretion may and, if so requested in writing by holders of the relevant series of at least one quarter of the aggregate principal amount of the outstanding Notes of the relevant series or if so directed by an Extraordinary Resolution (as defined in the Terms and Conditions), shall (subject to the Trustee having been indemnified, provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes of the relevant series to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

Cross-Acceleration .....	The Notes will contain a cross-acceleration provision as further described in Condition 8(d) of the Terms and Conditions.
Clearing Systems .....	Each series of the Notes will be represented by beneficial interests in a Global Note Certificate in registered form, which will be registered in the name of a nominee of, and deposited on or about the Issue Date with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in each Global Note Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Notes of the relevant series will not be issued in exchange for beneficial interests in the relevant Global Note Certificate.
Clearance and Settlement.....	<p>The 2017 Notes have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following codes:</p> <p>ISIN: XS1086081707</p> <p>Common Code: 108608170</p> <p>The 2019 Notes have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following codes:</p> <p>ISIN: XS1088292815</p> <p>Common Code: 108829281</p>
Governing Law .....	English law
Trustee and Principal Paying Agent .	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent.....	The Bank of New York Mellon (Luxembourg) S.A.
Listing .....	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes on the Hong Kong Stock Exchange by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only and such permission is expected to become effective on or about 18 July 2014.
Rating.....	The Notes are expected to be rated “Baa1” by Moody’s, “BBB+” by S&P and “A” by Fitch and the Company has been rated “A3” by Moody’s, “A-” by S&P and “A” by Fitch. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agencies.
Use of Proceeds .....	See “ <i>Use of Proceeds</i> ”.
Keepwell Deed.....	The Issuer, the Guarantor and the Company will enter into the Keepwell Deed with the Trustee as further described in “ <i>Offer Structure — The Keepwell Deed</i> ” and “ <i>Description of the Keepwell Deed</i> ”.
Deed of Undertaking.....	The Issuer, the Guarantor and the Company will enter into the Deed of Undertaking with the Trustee as further described in “ <i>Offer Structure — The Deed of Undertaking</i> ” and “ <i>Description of the Deed of Undertaking</i> ”.

## SUMMARY FINANCIAL INFORMATION OF THE GROUP

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The summary consolidated financial information as at and for the two years ended 31 December 2012 and 2013 has been derived from the Group's audited consolidated financial statements as at and for the year ended 31 December 2013, which have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, Beijing Branch, independent certified public accountants, and included elsewhere in this Offering Circular. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Group's Financial Statements and, including the notes thereto.

In 2013, the Company's management has reorganised and repositioned the principal operating activities of the Company when preparing the financial statements, and modified the related accounting method and accounting policy. Based on such modifications, the Group restated certain assets, liabilities and shareholders' equity as at 31 December 2012, as well as the items in profit or loss for the year ended 31 December 2012. Comparative figures in the financial statements are presented in restated form. See Note 29 "Comparative Figures" to the Group's Financial Statements.

The Group's Financial Statements have only been prepared in Chinese and the Financial Statements Translation has been prepared and included in this Offering Circular for reference only. Should there be any inconsistency between the Group's Financial Statements and the Financial Statements Translation, the Group's Financial Statements shall prevail. Neither the Joint Lead Managers nor their respective affiliates, directors and advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete.

The Group's Financial Statements have been prepared and presented in accordance with PRC GAAP except for certain disclosure requirements under PRC GAAP. For more information, see Note III "Basis of Preparation" to the Group's Financial Statements. PRC GAAP differs in certain material respects from IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "Summary of Significant Differences between PRC GAAP and IFRS".

## CONSOLIDATED STATEMENTS OF INCOME OF THE GROUP

	For the year ended 31 December		
	2012		
	(Restated)	2013	2013
	RMB		U.S.\$ <sup>(1)</sup>
	(in thousands)		(in thousands)
<b>Operating income</b>			
Net income from principal business .....	10,232,077	17,554,479	2,823,171
Net income from intermediary business .....	4,724,399	5,896,795	948,343
Investment income .....	4,296,645	5,619,947	903,819
Among: gain/loss on joint venture investments .....	118,008	902	145
Profit or loss from fair value changes .....	41,468	(226,964)	36,501
Other income .....	358,819	438,772	70,564
Among: Gain/loss on			
Foreign currency exchange .....	(65)	(793)	128
Other business income .....	358,884	439,565	70,692
Total operating income .....	19,653,408	29,283,029	4,709,397



	For the year ended 31 December		
	2012		
	(Restated)	2013	2013
	RMB (in thousands)	U.S.\$ <sup>(1)</sup> (in thousands)	
<b>Operating expenses</b>			
Business taxes and surcharges .....	(1,029,504)	(1,380,907)	222,082
Business and management fees .....	(3,793,001)	(5,043,399)	811,097
Impairment loss on assets .....	(2,303,186)	(4,780,759)	768,858
Other operating cost .....	(3,589,693)	(5,468,970)	879,538
Total operating expenses .....	(10,715,384)	(16,674,035)	2,681,575
<b>Operating profit</b> .....	8,938,024	12,608,994	2,027,821
Add: Non-operating income .....	182,640	1,045,960	168,215
Deduct: Non-operating expenses .....	(11,254)	(15,208)	2,446
<b>Total profits</b> .....	9,109,410	13,639,746	2,193,591
Deduct: Income tax expense .....	(2,122,856)	(3,546,557)	570,369
<b>Net profit</b> .....	6,986,554	10,093,189	1,623,221
Net profit attributable to shareholders of the parent company .....	5,892,163	8,659,592	1,392,665
Minority interests .....	1,094,391	1,433,597	230,556
<b>Other comprehensive (expense)/income</b> .....	(589,921)	328,583	52,844
<b>Total comprehensive income</b> .....	6,396,633	10,421,772	1,676,065
<b>Total comprehensive income attributable to shareholders of the parent company</b> .....	5,301,040	9,055,645	1,456,360
<b>Total comprehensive income attributable to Minority interests</b> .....	1,095,593	1,366,127	219,705

Note:

- (1) Calculated at the exchange rate of U.S.\$1.00 = RMB6.2180 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.

# **CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP**

	As at 31 December		
	2012 (restated)	2013	2013
	RMB (in thousands)		US\$ <sup>(1)</sup> (in thousands)
<b>ASSETS</b>			
Cash and bank balances.....	17,137,381	23,547,015	3,786,911
Deposits in the Central Bank.....	16,650,329	20,846,116	3,352,544
Placements with banks and financial institution.....	4,276,009	11,006,425	1,770,091
Held-for-trading financial assets.....	18,963,826	20,673,942	3,324,854
Accounts receivable.....	3,109,898	7,229,680	1,162,702
Interest receivable.....	785,789	979,917	157,594
Financial assets held under resale agreements.....	39,784,932	40,463,684	6,507,508
Loans and advances.....	37,533,850	46,657,111	7,503,556
Available-for-sale financial assets.....	28,266,575	28,111,527	4,520,992
Held-to-maturity investments.....	9,741,939	12,623,756	2,030,196
Debts classified as receivables.....	74,921,669	124,315,504	19,992,844
Finance lease receivables.....	47,268,142	55,167,739	8,872,264
Long-term equity investments.....	4,151,422	4,097,828	659,027
Investment properties.....	650,831	627,992	100,996
Fixed assets.....	3,708,022	4,128,953	664,032
Intangible assets.....	154,129	231,818	37,282
Goodwill.....	18,063	18,063	2,905
Deferred income tax assets.....	915,101	2,330,672	374,827
Other assets.....	6,995,681	5,603,479	901,171
<b>Total assets.....</b>	<b>315,033,588</b>	<b>408,661,221</b>	<b>65,722,293</b>
<b>LIABILITIES</b>			
Short-term borrowings.....	54,346,982	57,167,246	9,193,831
Borrowings from the Central Bank.....	40,000	52,300	8,411
Placements from banks and financial institutions.....	11,889,318	21,845,951	3,513,340
Accounts payable.....	36,447,272	33,406,545	5,372,555
Financial assets sold under repurchase agreements.....	48,145,992	33,988,637	5,466,169
Due to customers.....	70,051,836	87,885,938	14,134,117
Staff costs payable.....	1,433,446	2,318,156	372,814
Tax payable.....	2,415,197	2,479,879	398,823
Interest payable.....	941,587	1,680,597	270,279
Provisions.....	101,744	177,996	28,626
Bonds issuance.....	3,487,000	17,886,181	2,876,517
Long-term borrowings.....	35,412,950	78,963,897	12,699,244
Deferred income tax liabilities.....	55,905	454,694	73,125
Other liabilities.....	7,692,885	17,819,049	2,865,720
<b>Total liabilities.....</b>	<b>272,462,114</b>	<b>356,127,066</b>	<b>57,273,571</b>

	As at 31 December		
	2012	2013	2013
	(restated)		
	RMB (in thousands)	US\$ <sup>(1)</sup> (in thousands)	
<b>Shareholders' equity</b>			
Share capital .....	25,835,870	25,835,870	4,155,013
Capital reserves.....	810,934	1,207,091	194,128
Surplus reserves .....	416,046	1,000,912	160,970
General risk provisions .....	—	1,546,510	248,715
Undistributed profits .....	7,113,233	12,377,489	1,990,590
Exchange differences from foreign currency translation .....	—	(1,286)	207
<b>Total shareholders' equity attributable to parent company .....</b>	<b>34,176,083</b>	<b>41,966,586</b>	<b>6,749,253</b>
Minority interests .....	8,395,391	10,567,569	1,699,513
<b>Total shareholders' equity .....</b>	<b>42,571,474</b>	<b>52,534,155</b>	<b>8,448,722</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>315,033,588</b>	<b>408,661,221</b>	<b>65,722,294</b>

*Note:*

- (1) Calculated at the exchange rate of U.S.\$1.00 = RMB6.2180 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.

## SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

*The following tables set forth the summary consolidated financial information of the Guarantor as at and for the period indicated.*

*The summary consolidated financial information as at and for the period ended 31 December 2013 has been derived from the Guarantor's audited consolidated financial statements as at and for the period ended 31 December 2013, which have been audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this Offering Circular. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Guarantor's Financial Statements and, including the notes thereto.*

*The Guarantor's Financial Statements have been prepared and presented in accordance with HKFRS.*

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE GUARANTOR

	For the period from 2 January 2013 (date of incorporation) to 31 December 2013	
	HK\$	U.S.\$ <sup>(1)</sup>
Turnover .....	94,772,982	12,226,090
Investment income .....	9,302,240	1,200,026
Bank interest income .....	145,135	18,723
Total income .....	104,220,357	13,444,839
Operating expenses .....	(51,738,470)	(6,674,468)
Finance cost .....	(4,357,047)	(562,076)
Profit before taxation .....	48,124,840	6,208,295
Income tax expense .....	(8,683,189)	(1,120,166)
Profit before the period .....	39,441,651	5,088,129
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations .....	83,605	10,785
Other comprehensive income for the period (net of tax) .....	83,605	10,785
Total comprehensive income for the period .....	39,525,256	5,098,915

*Note:*

- (1) Calculated at the exchange rate of U.S.\$1.00 = HK\$7.7517 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GUARANTOR**

	As at 31 December 2013	
	HK\$	U.S.\$ <sup>(1)</sup>
<b>Non-current assets</b>		
Property and equipment .....	2,817,369	363,452
Loans and advances .....	429,493,600	55,406,375
Financial asset held under resale agreement.....	252,000,000	32,508,998
Deposits and other receivables .....	1,606,670	207,267
	<u>685,917,639</u>	<u>88,486,092</u>
<b>Current assets</b>		
Loans and advances .....	479,000,000	61,792,897
Other receivables .....	670,781	86,533
Interest receivable .....	4,671,401	602,629
Held for trading investments .....	259,299,940	33,450,719
Bank balances and cash .....	81,485,023	10,511,891
	<u>825,127,145</u>	<u>106,444,670</u>
<b>Current liabilities</b>		
Bank borrowings .....	1,380,750,000	178,122,218
Income tax payable .....	8,704,843	1,122,959
Interest payable .....	1,555,489	200,664
Other payables .....	15,086,042	1,946,159
	<u>1,406,096,374</u>	<u>181,392,001</u>
<b>Net current liabilities .....</b>	<b>(580,969,229)</b>	<b>(74,947,331)</b>
<b>Total assets less current liabilities .....</b>	<b><u>104,948,410</u></b>	<b><u>13,538,761</u></b>
<b>Equity and reserves</b>		
Share capital.....	50,000,000	6,450,198
Retained profit .....	39,441,651	5,088,129
Exchange reserves.....	83,605	10,785
<b>Total equity .....</b>	<b><u>89,525,256</u></b>	<b><u>11,549,113</u></b>
<b>Non-current liabilities</b>		
Amounts due to ultimate holding company .....	1,808,185	233,263
Amounts due to immediate holding company .....	348,135	44,911
Amounts due to a fellow subsidiary .....	998,061	128,754
Other payables .....	12,268,773	1,582,720
	<u>15,423,154</u>	<u>1,989,648</u>
<b>Total equity and non-current liabilities.....</b>	<b><u>104,948,410</u></b>	<b><u>13,538,761</u></b>

*Note:*

- (1) Calculated at the exchange rate of U.S.\$1.00 = HK\$7.7517 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.



## RISK FACTORS

*Prospective purchasers of the Notes should carefully consider the risk factors set forth below, as well as the other information contained elsewhere in this Offering Circular. The risks described below are not the only ones that may affect the Issuer, the Guarantor, the Company, the Group or the Notes. Additional risks and uncertainties which the Issuer, the Guarantor or the Company is not aware of or that the Issuer, the Guarantor or the Company currently believes are immaterial may also adversely affect the Group's financial condition or results of operations. If any of the possible events described below occur, the Group's financial condition or results of operations could be materially and adversely affected. In such case, the Issuer, the Guarantor or the Company may not be able to satisfy their respective obligations under the Notes, the Guarantee of the Notes, the Keepwell Deed or the Deed of Undertaking (as the case may be) and investors could lose all or part of their investment.*

*This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.*

### RISKS RELATING TO THE GROUP'S NPA MANAGEMENT BUSINESS

**If the Group is unable to maintain the growth of its distressed debt asset portfolio, the Group's competitive position, financial condition and results of operations may be materially and adversely affected.**

Distressed asset management is the Group's core business. The distressed debt assets the Group acquires from financial institutions and non-financial enterprises are primarily composed of NPLs sold by banks, distressed debt assets sold by non-bank financial institutions and accounts receivable sold by non-financial enterprises. As at 31 December 2012, the net balance of the Group's distressed debt assets acquired from various entities amounted to RMB58,356 million, among which the balance of disposable assets was RMB3,126 million and the balance of restructuring assets was RMB55,230 million. As at 31 December 2013, the net balance of the Group's distressed debt assets acquired from various entities amounted to RMB100,262 million, among which the balance of disposable assets was RMB8,134 million and the balance of restructuring assets was RMB92,128 million. The Group's ability to generate sustainable revenue and ensure business growth depends, to a certain extent, on its ability to acquire distressed debt assets suitable for its business.

The supply of distressed debt assets is affected by a number of factors, including changes in macroeconomic conditions and asset quality and business conditions of financial institutions and non-financial enterprises. Changes in the NPL balance of commercial banks in the PRC, the overall volume of accounts receivable of enterprises and macroeconomic conditions, the government's control and industry policies and market liquidity fluctuation could have significant effects on the supply of distressed debt assets. Therefore, the supply of distressed debt assets in the PRC financial market may be limited or changed over a certain period of time. The amount of distressed debt assets the Group is able to acquire depends on a number of factors beyond its control, including the policies of the PRC central government or local governments, willingness of banks and enterprises to sell their distressed debt assets and the Group's competition with other AMCs. If the Group fails to acquire distressed debt assets at acceptable prices or at all, or if further changes in government policies with regard to distressed asset management prevent the Group from growing its distressed debt asset portfolio, the Group's competitive position, financial condition and results of operations may be materially and adversely affected.

**The Group's acquisition of NPAs involves due diligence and modelling, which are subject to certain limitations and market factors that are beyond its control. These may limit the Group's judgments and evaluations in respect of its acquisition and disposal of NPAs.**

The NPAs acquired by the Group were transferred from various financial or non-financial institutions in the PRC, covering different industry sectors and geographic regions. A portion of the NPAs it acquired does not have effective collateral. The Group determines its bidding prices primarily by taking various factors into account, including (i) the quality of the relevant asset portfolio as described in the due diligence reports prepared by its in-house experts and/or qualified independent third-party valuers, (ii) estimated costs associated with managing and disposal of such assets and (iii) prevailing market conditions and intensity of

competition, all of which involve significant judgments and estimates. There is no assurance that the Group's estimated costs would be sufficient to cover the actual costs or it could accurately predict future market conditions. For instance, any uncertainties in economic conditions in the PRC market or overseas may materially and adversely affect the value of the NPAs acquired by the Group.

**The Group may not recover the full value of its NPAs due to changes in market conditions and the Group's ability to dispose of distressed assets is subject to the limited methods of disposal available in the PRC.**

The Group generally records the NPAs at fair value. The Group generally records profits when the amount of the proceeds it received from disposal of the NPAs exceeds the recorded fair value or purchasing costs of such assets. Recoverability of the NPAs depends on various factors, many of which are dependent on market conditions, such as the economic conditions in the PRC and in the world, the prevailing market conditions and changes in the relevant PRC laws and regulations. Therefore, the actual recovered value of the NPAs could be significantly lower than expected and the Group may incur losses in relation to such NPAs. The occurrence of the abovementioned factors may cause the quality of the Group's NPA portfolio to decline or make it hard for the Group to recover the fair value or purchasing costs of the relevant NPAs. In addition, the Group, from time to time, has to recover value of some of its NPAs through litigation or arbitration. However, there is no assurance that the Group could achieve the outcome as it expected. The Group makes provisions in connection with its NPAs as required by relevant laws and regulations and prudent accounting policies. If the Group's application of evaluation system or debt collection is insufficient, provision for impairment loss may not be sufficient to cover actual loss and the Group may need to make extra provisions for impairment loss. This may impact the Group's business performance.

The methods the Group currently adopts to realise the value of NPAs consist primarily of debt collection and litigation, debt restructuring, DES arrangements, assets for debt repayment, transfer of distressed assets, public listing and disposals through sales. Given the distressed management industry in the PRC is expected to further evolve, certain innovative financing and disposal financing and disposal methods to hedge against the loss arising from, and to preserve the value in, distressed assets may no longer be available to the Group. In addition, the Group's distressed asset management is subject to the existing rules, regulations and policies, which may change from time to time based on the development of the distressed asset management industry. Any asset disposal method that is newly introduced into the market needs further development and improvement and there are legal uncertainties with respect to the new method prior to the promulgation of rules and regulations governing such new method. Although the Group's management believes that its methods and manners of disposal are in compliance with applicable laws and regulations, the regulatory authorities may take different views, which could restrict or prevent the Group from using specific methods of distressed asset disposal, and/or impose fines and other penalties on the Group.

**The profitability of the Group's direct investment business is subject to market conditions and other factors beyond its control.**

The Group makes direct equity investments in companies and invests in private equity funds with its own capital. The Group earns investment returns from dividends paid by its portfolio companies and generates capital gains from exits through an initial public offering or sale of shares in its portfolio companies. The Group generally carefully identifies and selects a target company based on the profitability and sustainability of the target's operations. The Group's portfolio companies may take longer than expected to mature to a stage suitable for an initial public offering or for the Group's exit. As such, the Group's investment period would be longer than it anticipated which could reduce the Group's returns on investments. Besides, the Group's ability to exit from a portfolio company is subject to market conditions. The Group may be forced to sell its investments at undesirable prices or defer sales for a considerable period of time or may not be able to sell at all due to market volatility or other reasons beyond the Group's control. In addition, whether the Group could identify suitable targets for investment is subject to market conditions beyond its control.

**The Group may have limited control over the companies in which it invests.**

The Group may have limited control over the companies in which it invests. The Group may not be able to influence the business, financial or management decisions of the companies in which it invests, which could result in the Group not being able to achieve the expected investment return. The Group's business, financial condition and results of operations could be materially and adversely affected.

As the Group does not participate in the daily management of the majority of these companies, it may not be aware of issues arising from their daily operations and legal compliance. Even if the Group is aware of such issues, it may not be able to cause such enterprises to resolve the issues due to its limited influence on them. Therefore, certain issues arising from the daily operations and legal compliance of these companies may materially and adversely affect the Group's business, financial condition and results of operations.

**The Group is exposed to general risks associated with the real estate projects related to its NPA business.**

The property market is affected by many factors, including, without limitation, general economic conditions, interest rates and supply and demand dynamics, many of which are beyond the Group's control. For example, all of the Group's real estate projects related to its NPA business are located in the PRC. In recent years, the PRC central government and local governments have implemented stringent policies to prevent an overheated real property market. Any further stringent policies in the PRC or prolonged implementation of the relevant policies could lead to problems with the liquidity of real estate properties in the PRC, which may in turn affect the Group's return on its real estate projects related to its NPA business. In addition, the value of the Group's real estate collateral may decrease. The Group may not be able to sell any of the real estate collateral for favourable prices or on favourable terms in legal enforcement proceedings. It also cannot predict the length of time needed to find willing purchasers and to close the sale of the real estate collateral. In addition, real estate properties managed by the Group in relation to its NPA business may not be as profitable as the Group expected and the costs associated with the maintenance of these real estate properties may overrun. The occurrence of any situation mentioned above may adversely impact the revenue and profits sourced from the Group's NPA business.

**Acquisition of distressed debt assets from non-financial enterprises is a new source to expand the Group's distressed debt asset portfolio and its future business development may be subject to the Group's relevant business experience and the regulatory environment.**

The Group commenced the acquisition of distressed assets from non-financial enterprises in 2013 under the guidance of the PRC government. The Group records such distressed debt assets as financial assets classified as receivables in its consolidated statements of financial position. As the acquisition of distressed debt assets from non-financial enterprises is a new source to expand the Group's distressed debt assets portfolio, and the Group's experience or expertise in operating such business is limited, which may affect its ability to assess the quality of the distressed debt assets and its ability to prevent legal disputes with its transaction counterparties. In addition, the Group may not make appropriate judgments in respect of the quality of assets and future income due to lack of sufficient historical data, or inappropriate application of appraisal model or approach for such assets. Furthermore, the current regulatory rules and policies related to the acquisition of receivables from non-financial enterprises may change from time to time, subject to the macroeconomic policies of the PRC government and the development of the distressed asset management industry. The Group may face more intense competition if other AMCs are approved by regulatory authorities to conduct these businesses in the future. If the Group fails to manage these risks and challenges effectively, its new business of acquiring distressed debt assets from non-financial enterprises could be adversely affected, which may in turn materially and adversely affect the Group's asset quality, financial condition and results of operations.

**If the collateral or guarantees securing the Group's distressed debt assets are not sufficient, or for other reasons, the Group may not be able to recover the full value of the collateral or guarantees in a timely manner or at all.**

A significant portion of the Group's distressed debt assets are secured by collateral or guarantees. The mortgages securing the Group's distressed debt assets primarily include real properties and other assets located in the PRC. The value of the collateral securing the Group's debt assets may significantly fluctuate or decline due to factors beyond its control, including macroeconomic factors affecting the PRC economy. For example, a downturn in the real estate market in the PRC may result in a decline in the value of the real properties securing the Group's debt assets to a level significantly below the outstanding balance of principal and interests of such debt assets. Any decline in the value of such collaterals may reduce the amounts the Group can recover from such collateral and increase its impairment losses.

Some of the guarantees securing the Group's debt assets are provided by the obligor's affiliates. Such debt assets are generally not secured by collateral or security interests other than guarantees. Significant deterioration in the financial condition of a guarantor could significantly decrease the amounts the Group may recover from such guarantees. Moreover, the Group is subject to the risk that courts or other judicial or governmental authorities may declare a collateral to be invalid or otherwise decline or fail to enforce such collateral. Thus, the Group is exposed to the risk that it may not be able to recover part or all of the amounts guaranteed for its debt assets. Moreover, the Group obtains assets in satisfaction of debt when acquiring or disposing distressed debt assets and it does not intend to hold these assets in satisfaction of debt for long term. Certain land and buildings in satisfaction of debt the Group currently holds have defects because the land use rights or the building ownership have not been obtained by the previous owners or transferred to the Group. As a result, the Group may not be able to exercise its rights over the assets in satisfaction of debt, which may affect its ability to dispose of the assets in satisfaction of debt and generate income.

## **RISKS RELATING TO THE GROUP'S BANKING BUSINESS**

**If HRXJ Bank is unable to effectively control and reduce the level of impaired loans and advances in its current loan portfolio and of the new loans HRXJ Bank extends in the future, or if HRXJ Bank's allowance for impairment losses on loans and advances is insufficient to cover actual loan losses, its financial condition and results of operations may be materially and adversely affected.**

HRXJ Bank's results of operations may be negatively impacted by its impaired loans. According to HRXJ Bank's internal policy, when the future cash flow is predicted to be lower than the face value of a loan, HRXJ Bank will provide allowance in advance for the difference in value between the predicted cash flow and the face value of the loan, and loan impairment is equivalent to such allowance provided. HRXJ Bank is cautious in following its accounting standards to predict the potential loan impairment loss to ensure it can duly provide allowance for impairment losses. As at 31 December 2013, HRXJ Bank's NPLs were RMB179 million, representing a NPL ratio of 0.38 per cent. HRXJ Bank seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its impaired loans in recent years, despite the recent financial turmoil in world markets.

The amount of HRXJ Bank's reported impaired loans and the ratio of HRXJ Bank's impaired loans to its loans and advances to customers may increase in the future for a variety of reasons, including factors which are beyond HRXJ Bank's control, such as a slowdown in economic growth and other adverse macroeconomic trends in the PRC or a deterioration in the financial condition or results of operations of HRXJ Bank's borrowers, which could impair the ability of HRXJ Bank's borrowers to service their debt. There can be no assurance that HRXJ Bank will be able to maintain or lower its current impaired loan ratio in the future or that the quality of its existing or future loans and advances to borrowers will not deteriorate. As a result of the PRC government's economic stimulus programmes, many PRC banks, including HRXJ Bank, experienced high growth in their loan balances in the past. This increase in bank loans may lead to elevated impaired loan ratios and loan loss provisions as well as increasing strain on HRXJ Bank's risk management resources, which may affect the quality of its loan portfolio.

HRXJ Bank's allowance for impairment losses on loans and advances is affected by various factors, including the quality of HRXJ Bank's loan portfolio, HRXJ Bank's borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the extent of any guarantees, the industry in which the borrower operates in, as well as general economic and business conditions. There is no assurance that HRXJ Bank will always be able to estimate its impairment losses accurately and keep them within the limit of its estimated allowance. If HRXJ Bank's allowance for impairment losses on loans and advances proves insufficient to cover actual losses, it may need to make additional allowance for losses, which could reduce its profit and materially and adversely affect its business, financial condition and results of operations.

**If HRXJ Bank is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of its loans, its financial condition and results of operations may be adversely affected.**

A substantial portion of HRXJ Bank's loans is secured by collateral. HRXJ Bank's loan collateral primarily includes real estate and other financial and non-financial assets located in the PRC, the value of which may fluctuate due to factors beyond HRXJ Bank's control, including macroeconomic factors affecting the PRC economy. In particular, an economic slowdown in the PRC may lead to a downturn in the PRC real estate

market, which may in turn result in declines in the value of the collateral securing many of HRXJ Bank's loans to levels below the outstanding principal balance of such loans. Any significant decline in the value of the collateral securing HRXJ Bank's loans may result in a reduction in the amount HRXJ Bank can recover from collateral realisation and an increase in its impairment losses.

In addition, a substantial portion of HRXJ Bank's domestic loans and advances are backed by guarantees. HRXJ Bank's exposure to guarantors is generally unsecured, and a significant deterioration in the financial condition of these guarantors increases the risk that HRXJ Bank may not be able to recover the full or any amount of such guarantees if and when required.

Furthermore, the effectiveness of guarantee provided by such guarantors may be determined by whether the relevant guarantor has complied with certain regulations in the PRC, including the Property Law of the PRC and the Security Law of the PRC.

**HRXJ Bank's business may be adversely affected by the expanding financing channels in the PRC.**

Currently, the emergence and development of various financing channels brings challenges to the traditional commercial banking business. Enterprises may finance through equity, bonds, third-party payment, small-amount loan and pawn, venture capital and private equity and other non-banking channels. The activeness and development of these non-banking businesses, to some extent, brings challenges to the traditional commercial banking business, which in turn may adversely affect HRXJ Bank's business.

In particular, online financial service providers are able to provide convenient and similar financial services to customers, and poses significant threat to traditional commercial banks. Given the nature of its business, online financial service providers may easily analyse the needs of their customers by analysing data via the internet and can develop financial products that meet the needs of the market. They may also promote their brands and services via the internet effectively at a relatively low cost. As a result, the prevalence of such online financial service providers could adversely impact HRXJ Bank's traditional banking services and could materially and adversely affect HRXJ Bank's competitiveness, business, financial condition and results of operations.

**HRXJ Bank's liquidity may be adversely affected if it fails to maintain its deposit growth or if there is a significant decrease in its deposits.**

Most of the funding requirements of HRXJ Bank's commercial banking operations are met through short-term funding, principally in the form of deposits, including customer and inter-bank deposits. While HRXJ Bank's customer deposits have been a stable and predictable source of funding, there can be no assurance that HRXJ Bank will always be able to rely on this source of funding. If HRXJ Bank fails to maintain its deposit growth or if there is a significant decrease in its deposits, HRXJ Bank's liquidity position, business, financial condition and results of operations may be materially and adversely affected. Should any of these events occur, HRXJ Bank may need to seek more expensive sources of funding to meet its funding requirements.

In addition, HRXJ Bank may experience shortages of cash flow from time to time as a result of mismatches between the maturity of its income-generating assets and the maturity of its debts or funding needs. If the mismatches between the maturity of its assets and the maturity of its debts or funding needs widen significantly, HRXJ Bank's liquidity position could be materially and adversely affected. There can be no assurance that HRXJ Bank will be able to obtain additional capital source financing based on acceptable terms or at all. HRXJ Bank may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits. Furthermore, HRXJ Bank's ability to obtain additional funds may also be affected by other factors, including factors beyond HRXJ Bank's control, such as the deterioration of overall market conditions, disturbances to the financial markets or a downturn in the industries where it has substantial credit exposure. All of these factors may result in significant adverse effects on HRXJ Bank's liquidity, business, financial position and results of operations.

**HRXJ Bank faces risks in relation to its operating licences.**

The PRC regulatory authorities currently require the segregation of the operations of banks, securities companies and insurance companies. Consequently, as a commercial bank, HRXJ Bank's business scope is under strict restriction and must be conducted in accordance with corresponding operating licences. HRXJ Bank's operating licences permit it to operate as a full-range commercial bank. However, if regulatory policies are amended in future, or the permitted business scope of financial institutions is amended or expanded, HRXJ



Bank may not be able to obtain new operating licences in a timely manner, which may adversely affect its competitiveness. Furthermore, in order to obtain new operating licences, HRXJ Bank may need to increase investments in research and development, operation management and infrastructures, which may in turn increase its operating costs.

**HRXJ Bank is subject to credit risks associated with its off-balance sheet commitments and guarantees.**

In the normal course of its business, HRXJ Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including providing financial guarantees and letters of credit to guarantee the performance of its customers to third parties, and providing bank acceptances. HRXJ Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of non-performance by its customers. If HRXJ Bank is not able to force its customers to perform their obligations or to obtain the repayment from its customers in respect of these commitments and guarantees, its business, financial conditions and results of operations may be materially and adversely affected.

**HRXJ Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities, such as maintaining a satisfactory loan to deposit ratio and a capital adequacy ratio.**

HRXJ Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities, such as the CBRC. There can be no assurance that HRXJ Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no fines or sanctions will be imposed on HRXJ Bank in the future if it fails to do so. If fines or sanctions are imposed on HRXJ Bank for breaches of these or other operational requirements and guidelines, HRXJ Bank's business, financial condition and results of operations may be materially and adversely affected.

The CBRC requires all commercial banks in the PRC to maintain certain financial ratios. In particular, the CBRC requires all commercial banks in the PRC to maintain a loan to deposit ratio of not more than 75 per cent. in accordance with the PRC Commercial Banking Law. Based on the regulatory returns reported to the CBRC, as at 31 December 2012 and 2013, the loan to deposit ratios of HRXJ Bank were 53.12 per cent. and 51.12 per cent., respectively. Although HRXJ Bank's endeavours to comply with the loan to deposit ratio stipulated by the CBRC, the continued growth of its customer deposits is affected by a number of factors, many of which are beyond its control. If HRXJ Bank fails to maintain such ratio, the Group may be subject to prudential supervisory measures imposed by the CBRC, such as suspension of any applications for the operation of new businesses and the establishment of new branches or sub-branches and, accordingly, its business, financial condition and results of operations may be adversely affected.

In recent years, the CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. In 2010, the CBRC began regulating the capital adequacy of commercial banks and implemented applicable regulatory target requirements for commercial banks. Currently, the CBRC is actively pushing forward the implementation of the new Basel III Capital Accord. In April 2011, the CBRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry to clarify the direction for future regulations and the requirement for prudent regulatory requirements. In 2012, the CBRC released the CBRC Measures to set up new requirement for capital adequacy. According to the CBRC Measures, the minimum capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of common equity Tier 1 capital, and under certain circumstances, a countercyclical buffer of between 0 per cent. and 2.5 per cent. of total risk weighted assets comprised of common equity Tier 1 capital. Capital conservation buffer and countercyclical buffers will be subject to a phase-in period till 2018. As at 31 December 2013, HRXJ Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.94 per cent., 9.97 per cent. and 9.97 per cent., respectively, which were in compliance with the CBRC Measures.

Although HRXJ Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect HRXJ Bank's compliance with capital adequacy ratios, and it is possible that HRXJ Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy.



In addition, some regulatory developments may affect HRXJ Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by the CBRC and the changes in calculations of capital adequacy ratios by the CBRC. If any of these circumstances occurs, the Group may be unable to comply with the regulatory requirements of the CBRC.

There can be no assurance that HRXJ Bank will be able to meet these requirements in the future at all times and any failure to meet these requirements may have a material and adverse effect on the Group's business, financial condition and results of operations.

**HRXJ Bank's loan classification may be different in certain respects from those applicable to banks in certain other countries or regions.**

HRXJ Bank classifies its loans as "pass", "special-mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to requirements of the CBRC. Its five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if HRXJ Bank was incorporated in those countries or regions.

## **RISKS RELATING TO THE GROUP'S FINANCIAL LEASING BUSINESS**

**The value of collateral or guarantee securing Huarong Financial Leasing's financial leases and the assets underlying such leases, which are disposed of upon repossession, may be inadequate to cover related finance lease receivables.**

Huarong Financial Leasing usually requests the lessees to provide collateral and/or guarantee to secure the obligations under the lease agreements. The value of collateral and/or assets underlying Huarong Financial Leasing's leases may decline due to various factors such as damage, devaluation, loss or reduced market demand. A significant deterioration in the financial condition of guarantors under the leases could significantly decrease the amounts Huarong Financial Leasing may recover under such guarantees. Huarong Financial Leasing conducts periodic impairment tests for collateral and assets underlying its leases. If the value of the collateral or assets underlying the leases is determined to be inadequate to cover the related finance lease receivables, Huarong Financial Leasing may need to obtain additional guarantee. Declines in the value of collateral, guarantees or assets underlying the leases or its inability to obtain additional guarantee may result in impairment losses and require Huarong Financial Leasing to make additional provisions for impairment losses on the finance lease receivables, which may materially and adversely affect the financial leasing business, financial condition and results of operations.

**The Group may not be able to successfully enforce its rights to the underlying collateral or guarantees to its leases or its rights to repossess the assets underlying such leases for the Group's financial leasing business.**

For the financial leasing services, Huarong Financial Leasing usually request the lessees to provide collateral or guarantees for the leases with specific guarantee agreements. The lessees and guarantors of the finance leases are generally third parties. In the event of any material default on interest payment terms, Huarong Financial Leasing is entitled to enforce its security rights and/or repossess and dispose of the assets underlying its leases to realise their value. In the PRC, the procedures for liquidating or otherwise realising the collateral value or tangible assets, enforcing the rights to a guarantee, or repossessing the assets underlying the leases are usually time-consuming. Although Huarong Financial Leasing could apply to a PRC court for the attachment or disposal of any underlying collateral, the enforcement of a guarantee or the repossession of the assets underlying the Group's leases upon the event of default, it is uncertain whether the local court's judgment would be enforceable due to uncertainties of the PRC legal system governing such enforcement. If Huarong Financial Leasing is unable to bring an enforcement action with respect to any collateral or guarantee securing the assets underlying its leases for repossession and disposal on a timely basis, it may have a material adverse effect on the asset quality, financial condition or results of operations of the Group's financial leasing operation.

## **RISKS RELATING TO THE GROUP'S SECURITIES BUSINESS**

**Huarong Securities's operations are subject to various risks and there can be no assurance that its brokerage commission and fee income will be sustained.**

Huarong Securities's operations are affected by external factors such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond the Group's control. Unfavourable market conditions may adversely affect the number of customers and their willingness to trade, the Group's ability to find suitable companies to invest in, and the Group's securities trading volume, all of which, in turn, may reduce its brokerage commission and fee income. In addition, market competition is another key factor affecting the Group's securities brokerage business. The Group monitors its product pricing in relation to competitors and adjusts its fee structures to enhance competitiveness. With the relaxation of the PRC securities regulations, the PRC securities industry will become increasingly competitive. If the PRC regulatory authorities further relax the restrictions on the opening of brokerage branches, competition may increase and the Group might not be able to further lower its brokerage commission rates in order to stay competitive. Any of these factors could negatively affect the Group's ability to continue growing its brokerage commission and fee income.

**Huarong Securities's underwriting operations are subject to various risks in the underwriting and sponsorship of securities and there can be no assurance that its underwriting and sponsor's fees can be sustained.**

The primary offering of securities in the PRC, especially an initial public offering, is subject to a merit-based review and approval process conducted by various regulatory authorities. The results and timing of these reviews are beyond Huarong Securities's control and may cause substantial delays to or the termination of securities offerings underwritten and sponsored by Huarong Securities. There can be no assurance that such approvals will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings Huarong Securities sponsors could harm the Group's reputation, erode client confidence and reduce its underwriting and sponsor's fee income, because the Group receives most of its fees only after the successful completion of a securities offering.

Furthermore, adverse market conditions and capital market volatility may also cause delays to, termination of or under subscription of securities offerings underwritten and sponsored by the Group. If Huarong Securities underwrites securities offerings on a firm commitment basis, it would be required to purchase some or all of the unsubscribed portion, which would adversely affect its liquidity. If Huarong Securities sells the securities on its account to investors below the offer price at which such securities were purchased, it will incur losses on the sales of those securities.

Intensifying price competition in the securities underwriting business may force Huarong Securities to charge a lower underwriting fee rate to stay competitive. Moreover, when acting as a sponsor in the underwriting of securities, Huarong Securities may be subject to regulatory sanctions, fines, penalties or other disciplinary actions in the PRC for conducting inadequate due diligence.

**Huarong Securities's proprietary trading operations are subject to market volatility and its investment decisions.**

Huarong Securities trades equity and fixed income securities as well as derivative products for its own account, all of which are subject to market volatility and, therefore, the results of its securities trading activities generally correlate with the performance of the PRC securities markets. Huarong Securities also engages in derivative transactions involving stock index futures. The Group uses derivative instruments to reduce the impact of price volatility on its investment portfolio. However, the PRC derivatives market is not mature and only provides limited means for hedging against volatile trading markets, which may make it difficult for Huarong Securities to reduce its exposure to price volatility on its investment portfolio. In addition, derivatives contracts Huarong Securities enters into expose it to the risks associated with these instruments and their underlying assets. The secondary market for derivatives is volatile and Huarong Securities may be inexperienced in managing new products or trading derivative products.

The performance of Huarong Securities's proprietary trading business is determined by its investment decisions and judgments based on its assessment of existing and future market conditions. Huarong Securities closely monitors the market value and financial performance of its proprietary trading portfolio, and actively adjusts such portfolio and allocates assets based on market conditions and internal risk management

guidelines. However, Huarong Securities's investment decisions are a matter of judgment, which involves management discretion and assumptions. Its decision-making process may fail to effectively minimise losses, capture gains, or conform to actual changes in market conditions. In addition, the value of certain assets of Huarong Securities, such as available-for-sale investments, are subject to price fluctuations as a result of changes in the financial market's assessment of the relevant issuer's credit worthiness, delinquency and default rates and other factors. The decline in the value of such assets can result in the recognition of impairment losses, which in turn involves the judgment of the Group's management.

## **RISKS RELATING TO THE GROUP'S OTHER BUSINESSES**

**Any failure to pay the principal and investment returns to the investors under any trust plans as scheduled may materially and adversely affect the Group's trust business.**

Huarong Trust provides various trust plans for investors. In the process of launching trust plans, Huarong Trust needs to inform investors about the amount of funds raised, duration and expected returns of the trust plans. The investment projects of the trust plans launched by Huarong Trust mainly focus on industries such as the infrastructure, manufacturing, metals, financial and real estate industries. In case of the downturn and slowdown in such industries, Huarong Trust may not be able to collect the principal and/or expected investment returns of its trust plans. If Huarong Trust fails to pay the principal and expected investment returns to investors in accordance with Huarong Trust's expectations when the trust expires, the reputation of Huarong Trust will be damaged and the confidence and sentiment of investors towards its existing and future trust plans will be affected, which may adversely affect the results of Huarong Trust's business operations.

**The Group's asset management, fund management and trust business depend largely on its ability to raise funds from investors and retain the funds raised.**

The Group's ability to raise funds for its asset management business depends on a number of factors, many of which are beyond the Group's control. Investors may reduce or withdraw their investments due to market volatility and unfavourable economic conditions as well as when the investment objective is satisfied. Poor performance of the Group's asset management plans could also make it more difficult for the Group to raise new capital. To the extent that economic and market conditions deteriorate, the Group may be unable to raise sufficient funds to support the investment activities of future asset management plans. If the Group fails to raise funds, the financial condition and results of operations of its asset management business could be materially and adversely affected.

**A significant decline in the size of the assets under management or poor management performance may materially and adversely affect the Group's funds and trusts operations.**

The Group receives asset management fees based on the value of its customer portfolios or investments in funds and trusts managed by it. In addition, the Group provides private equity fund management, collective asset management and targeted asset management schemes in which it may also earn performance fees. Investment performance affects the Group's assets under management and is one of the most important factors in retaining clients and competing for new business. Market volatility and limitations in investment options and hedging strategies in the PRC could limit the Group's ability to provide stable returns for its clients and cause it to lose clients. Further market volatility, adverse economic conditions or the failure to out-perform competitors or the market may reduce the size of the assets under the Group's management or affect the performance of the funds or trusts it manages. Upon occurrence of any of the above circumstances, existing clients might withdraw their investments from the Group in favour of better performing products provided by competitors; clients may request that the Group lower its fees for asset management services, particularly in an intensely competitive industry; the Group's incentive fees, which are based on a percentage of investment returns, could decline; and firms with which the Group has strategic alliances may terminate their relationships with the Group, and future strategic alliances may be unavailable. In addition, the Group may not be able to keep or increase its assets under management.

## **RISKS RELATING TO THE GROUP'S OVERALL BUSINESS**

### **The Group's business is subject to market fluctuations and general economic conditions.**

The Group's business is inherently subject to market fluctuations and general economic conditions. Unfavourable financial or economic conditions, such as those caused by the recent global financial and economic crisis, including the sovereign-debt crisis in European Union, have adversely affected investor confidence and global financial markets and may continue to do so in the future. Furthermore, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, unemployment, consumer confidence, declining asset values, capital market volatility and liquidity issues have created difficult operating conditions in the past and may continue to do so in the future.

- Price fluctuations in capital markets and commodity markets may adversely affect the Group's financial conditions. The value of the Group's investment portfolio, which includes stocks, bonds, private equity, NPAs and the DES equity, is closely related to the performance of capital markets and the market price of commodities. Adverse economic and market conditions could lead to a decrease in the value of the Group's investment portfolio, which may, in turn, adversely affect the Group's liquidity, financing ability, financial conditions and results of operations.
- Difficult financial or economic conditions could adversely affect all business lines in which the Group operates. For example, fluctuations in the market and difficult financial or economic conditions could adversely affect investor confidence and reduce investment activities, which may reduce the demands for the Group's products and services and their respective prices, and consequently, impact the Group's ability to optimise its capital investment and to attract new investment. In addition, the supply of NPAs may decrease when the economy improves. Any of these situations could have a material adverse effect on the Group's results of operations.

### **The Group's business operations are subject to credit risk.**

A substantial proportion of the Group's financial portfolio in this business segment consists of NPLs and other impaired assets in Renminbi or foreign currencies that were stripped from financial or non-financial institutions in the PRC. As such, the Group is susceptible to credit risks associated with the deterioration in the credit quality of the relevant borrowers which may be driven by socio-economic or customer-specific factors linked to economic performance. There can be no assurance that losses will not occur due to increased delinquencies. In addition, the Group has exposure to credit risk associated with its available-for-sale investments and held-to maturity financial assets, primarily consisting of equity interests the Group obtains through DES or direct investment. These investments may also be subject to price fluctuations as a result of changes in the financial market's assessment of the issuer's credit worthiness, delinquency and default rates and other factors.

The Group's banking and financial services businesses are also subject to credit risks. A commercial bank may suffer loss because of the defaults or decline in credits of customers in such businesses as lending, borrowing and investment. Various businesses of HRXJ Bank, including lending, inter-bank borrowing, bonds investment, notes underwriting, letters of credit and letters of guarantee, may be adversely affected by the credit risk of customers.

The Group's financial services business is susceptible to the credit risks associated with its counterparties in its margin financing and securities loan business and financial and derivative products contracts. Clients' or counterparties' failure to make payment or perform their obligations could have a material adverse effect on the Group's financial condition, results of operations and cash flow. In addition, the Group's financial leasing business faces credit risks primarily related to the possible contract default by the lessees or guarantors, which in turn is related to adverse financial or economic conditions and certain factors relevant to the clients. Insufficient credit loss provision made by the Group to cover the actual loss may compel the Group to increase the provision and adversely impact the Group's financial conditions and results of operations.

**The Group's business operation is exposed to liquidity risk.**

The Group's business is capital intensive and requires a significant amount of cash. As such, sufficient liquidity is crucial to its business operations. The Group satisfies its liquidity requirements mainly through cash generated from operations, bank loans and proceeds from issuance of debt instruments. Any decline in the Group's liquidity level may impair the confidence of its customers or counterparties, which may result in loss of business and customers.

Factors which may adversely affect the Group's liquidity level include unfavourable changes to the macroeconomic environment, policies or money markets, the Group's failure to maintain current and future financing arrangements on commercially acceptable terms, decreases in recovery of cash from disposal of assets due to unfavourable changes of capital markets, firm-commitment underwriting transactions under investment banking business, failure to realise the value of invested financial assets at a reasonable price, concentrated holding of certain assets or asset categories, mismatching of assets and liabilities maturity, tightened regulatory requirement, other changes in regulations or weakened market and customer sentiments. If the Group is unable to generate sufficient cash from operating activities to meet its liquidity needs, the Group would be required to seek external financing.

There is no assurance that any additional financing will be available to it on acceptable terms, if at all. This risk is exacerbated by the volatility that the global credit markets have experienced. To the extent that additional financing proves to be unavailable when needed for a particular investment or acquisition, the Group may be compelled to either restructure the transaction or abandon the investment or acquisition plan. In addition, if the Group acquires or invests in another company, the company it acquires or invests in may require additional financing to fund continuing operations and/or growth. Furthermore, the Group's subsidiaries or branches may request support from the Group to meet their liquidity requirements during their ordinary course of business. Some of the Group's subsidiaries may need additional capital injection from the Group to meet relevant regulatory requirements. There is no assurance that the Group will always be able to provide sufficient funds to its subsidiaries or branches or other companies acquired or invested by it on a timely basis, if at all. The occurrence of any of the above-mentioned circumstances could materially and adversely affect the Group's financial condition and results of operations.

**Allowance for credit losses may prove inadequate and the Group's credit costs may increase.**

The Group reviews its NPLs, various loans it granted to clients or relevant borrowers and trade receivables, to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in its consolidated income statement, the Group's management takes into account factors, such as the borrower's financial situation and the net realisable value of the underlying collateral or guarantees in favour of the Group. A considerable amount of judgment is required in assessing the ultimate realisation of these loans and advances, including the current creditworthiness of the borrowers, and the past collection history of each loan.

Furthermore, if changes in the global economic climate lead to an increase in delinquencies or defaults on the loans, actual loss on the Group's loan portfolio may increase and exceed the existing allowance. If the Group's allowance for credit losses is not adequate to cover actual loan losses, impairment allowance for credit losses will increase and the Group's financial condition and results of operations may be adversely affected.

**The complexity of its operations and products exposes the Group to operating, marketing and other risks, and the Group's risk management and internal control systems may be ineffective or inadequate.**

The Group has established risk management and internal control systems and procedures to manage potential risks associated with the broad range of financial services and products it offers. The risk management and internal control system may require constant monitoring, maintenance and continual improvements by its senior management and staff. If the Group's efforts to maintain these systems are ineffective or inadequate, the Group may face operating, marketing and other risks. Deficiencies in the Group's risk management and internal control systems and procedures may affect its ability to record, process, summarise and report financial and other data in an accurate and timely manner, as well as impact its ability to identify any reporting errors and non-compliance with rules and regulations.



The Group's risk management and internal control systems and procedures may contain inherent limitation caused by misjudgment, fault or the Group's limited experience or resources in making accurate, complete, up-to-date or proper evaluations. In particular, the Group devises risk managing procedures based on observed historical market behaviour and the Group's experience. However, in markets that are rapidly developing, the information and experience data that the Group relies on for its risk management methods may become quickly outdated as markets and regulations continue to evolve.

Furthermore, the Group may not have sufficient access to resources and trading counterparties to implement its trading and investment risk mitigation strategies and techniques effectively. If the Group's decision making process fails to effectively minimise losses while capturing gains, it may materially and adversely affect the Group's financial performance.

As a result, there is no assurance that the Group's risk management and internal control systems are adequate or effective, and any failure to address any internal control matters and other deficiencies could result in investigations and disciplinary actions or even prosecution being taken against the Group or its employees, disruption to its risk management system, which may have a material and adverse effect on its financial condition and results of operations.

**There can be no assurance that the Group's due diligence investigations will identify every matter that could have a material adverse effect on the Group.**

The Group intends to conduct extensive business, financial and legal due diligence in connection with its operations, in particular, for potential acquisition and investment opportunities. However, there can be no assurance that the Group's due diligence investigations will identify every matter that could have a material adverse effect on the acquisition or investment targets. As a result, the Group may fail to identify the existing risks in relation to the business and operations of investment targets through its due diligence. To the extent that any of the above mentioned issues arise, the business and operations of the investment target could be adversely affected, which in turn could have material and adverse effects on the Group's financial condition and results of operations.

**The Group's acquisitions may not be successful.**

The Group expands through acquisition of entities offering financial services or products complementing its own business operations. The Group intends to identify and acquire suitable targets in line with its development strategy. There is no assurance that the Group will be able to identify additional suitable acquisition opportunities, negotiate acceptable terms or successfully acquire identified targets. It is anticipated that the investigation of an acquisition or investment plan and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial time and attention from management and substantial costs for accountants, attorneys and other advisers. If such acquisition or investment plan is not implemented, the costs incurred up to that point for the proposed transaction may not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition or investment target, the Group may not implement the investment or acquisition plan for many reasons beyond its control. For instance, the process of integrating an acquired business may involve unforeseen costs and delays or other operational, technical and financial difficulties that may require a disproportionate amount of management attention and financial and other resources. The failure to achieve consolidation savings, realise the expected synergies, successfully incorporate the acquired businesses and assets into the Group's existing operations or minimise any unforeseen operational difficulties could have a material adverse effect on its financial condition and results of operations.

**Significant interest rate fluctuations could affect the Group's financial condition and results of operations.**

The Group's exposure to interest rate risk is primarily associated with its interest income, interest expenses and fixed income securities. The Group earns interest income from bank deposits (including its own deposits and customer deposits), fixed income securities held by the Group, financial assets held under resale agreements and margin financing and securities lending business. Interest income from these sources is generally linked to the prevailing market interest rates. During periods of declining interest rates, the Group's interest income would generally decrease. The Group generally makes interest payments on deposits it holds



on behalf of its customers and its short-term borrowings. These interest expenses are typically linked to the prevailing market interest rates as well. During periods of rising interest rates, its interest expenses and financing costs would increase. Significant interest rate fluctuations could reduce the Group's interest income or returns on fixed income investments, or increase its interest expenses.

**The Group faces risks associated with its business expansion.**

The Group is committed to providing new products and services to enhance its business competitiveness and will continue to expand the financial products and services it offers according to the relevant PRC regulations, develop new customers and enter into new markets. Besides, the Group is actively expanding its financial services such as trusts. These activities expose the Group to new and potentially increasingly challenging risks, including, but not limited to:

- insufficient experience or expertise in offering new products and services and dealing with new counterparties and customers;
- greater regulatory scrutiny, increased credit risks, market risks and operational risks including the impact on the Group's capital as a result of stricter new regulatory policies on capital adequacy ratios;
- potential impact on the investment return of the Group's financial services such as trusts due to the overall economic conditions;
- reputational concerns arising from dealing with less sophisticated counterparties and customers;
- inadequate levels of service for its new products and services;
- failure to hire additional qualified personnel to support the offering of a broader range of products and services;
- unwillingness to accept the new products and services by the Group's customers or failure to meet its profitability expectations;
- failure to obtain sufficient financing from internal and external sources to support its business expansion; and
- unsuccessful enhancement of its risk management capabilities and IT systems to identify and mitigate all the risks associated with these new products and services, new customers and new markets.

If the Group is unable to achieve the intended commercial results with respect to its offering of new products and services, its business, financial condition, results of operations and prospects could be materially and adversely affected.

**The Group faces intense competition and its businesses could be materially and adversely affected if it is unable to compete effectively.**

The Group primarily operates in the PRC and Hong Kong, where the financial services industry is highly competitive. Under its NPA management operations, the Group primarily competes against other AMCs in the PRC, namely China Cinda Asset Management Co., Ltd., China Orient Asset Management Corporation and China Great Wall Asset Management Corporation. In addition, the Group may, from time to time, compete against AMCs established by the PRC local governments, or private or foreign institutions in the relevant markets. There is no assurance that the Group is able to acquire NPAs at suitable prices, or at all, under the intensified competition. The Group also competes with both local and international companies in respect of its banking, securities, funds, futures, trusts and financial leasing operations. The Group competes with these competitors in terms of brand recognition, marketing and distribution capability, service quality, financial strength, pricing and the range of products and services offered. For instance, when providing securities, futures, funds and trusts services, the Group monitors the product prices offered by its competitors in each respective area, and adjusts its commission fees and fee structure to increase its competitiveness. With the intensifying market competition, competitors may reduce their prices to improve their market share, which may compel the Group to further reduce its underwriting and sponsor fees and commission fees to remain competitive.

Some of its competitors may have certain competitive advantages over the Group, including greater financial resources, stronger brand recognition, a broader range of products and services, more extensive operating experience, higher market share and a more extensive distribution network. In addition, some of the Group's competitors, in particular, those operating in the security and futures industry, may have more extensive knowledge, business relationships and/or a longer operational track record in the relevant geographic markets, which enable them to have a better access to potential clients and capital resources than the Group does.

There is no assurance that the Group can compete effectively against its current and future competitors, or that competitive forces in the market will not alter the industry landscape such that the Group's business objectives would become impractical or impossible.

**After completing the restructuring and becoming a joint-stock company, the Group may face difficulties in integrating its business operations and coordinating among its different subsidiaries.**

The Group completed its restructuring in 2012 and became a joint-stock company. The Group has established a financial services platform that covers the PRC and Hong Kong, through which the Group offers a broad range of financial products and services. However, as the Group has a limited operating history as an independent operating entity after the restructuring, the Group's efforts to integrate its different business operations and coordinate among its different subsidiaries may not be effective or timely. The Group may also experience difficulties in managing its future growth and the increased scale of its operations. In addition, after the restructuring, the MOF, the controlling shareholder of the Group, may pursue policies or strategies that are not in the interest of future shareholders or the Noteholders.

**The Group is subject to extensive regulatory requirements, the non-compliance of which would materially and adversely affect the Group's financial condition and results of operations.**

The Group is subject to extensive laws, policy and regulatory requirements issued by the relevant governmental authorities in the PRC and overseas (including Hong Kong). In particular, the Group's management of NPAs is subject to the supervision of the MOF and the CBRC. Its financial services are subject to supervision of various authorities, such as the CBRC, the CSRC and the PBOC. These regulatory bodies promulgate requirements governing the Group's business in various aspects, such as capital adequacy, capital deposits, financial leverage ratios and deposits requirements of other types, capital usage, shareholders and key personnel qualification, types of products and services offered, investment portfolio and number and locations of branches. Compliance with applicable laws, rules and regulations may restrict the Group's business activities and require it to incur increased expense, restate or write down the value of its assets or liabilities, and to devote considerable time to such compliance efforts.

In addition, pursuant to applicable laws and regulations in the PRC, the Group is required to obtain or renew approvals, permits and licences with respect to its relevant operations. There is no assurance that the Group can obtain or renew all necessary approvals, permits and licences on a timely basis. Besides, some of the Group's PRC associated companies are in the process of applying for or will apply for land use right certificates or building ownership certificates. However, the Group may not be able to obtain certificates for all of these properties due to title defects or for other reasons, which may adversely affect the Group's ownership rights in respect of these properties. There may be defects in the land use rights or building ownership of some of the Group's PRC associated companies in respect of their leased properties and certain of the Group's leases are not registered with the relevant PRC governmental authorities. Non-compliance with relevant laws and regulations or failure to obtain the relevant approvals could subject the Group to sanctions, fines, penalties, revocation of licence or other punitive actions, including suspension of the Group's business operations or restriction or prohibition on certain business activities. Furthermore, relevant government authorities may adopt new laws and regulations, or amend the interpretation or enforcement of existing laws and regulations, or promulgate stricter laws and regulations, all of which may materially and adversely affect the Group's financial condition and results of operations.

**The Group's historical financial information is not necessarily indicative of its future performance, and the Group may not be able to continue acquiring additional DES assets or explore other revenue resources, and as a result, its revenues may be volatile due to the nature of its business.**

The Group's historical financial information included in this prospectus is not indicative of its future financial results. This financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially if its future growth does not follow its historical trends for various reasons, including factors beyond its control, such as changes in economic environment, competitive landscape and financial markets.

From time to time, including recent financial periods, the Group has derived a significant portion of income from a few major disposals of NPAs. In the future, the Group may dispose of debt or equity assets that may contribute to a significant portion of its income during the period. Income earned from each disposal of assets depend on the specific conditions of such assets, including the duration for holding the assets, operating conditions of creditors or companies owned by the Group, opportunities in the market and the Group's bargaining power, and general economic and market conditions. As a result, the returns on historical disposal of assets may not be indicative of the Group's returns on disposing of other assets in the future. In addition, the Group formulates plans for the assets to be disposed of and estimate income from such disposals for each year based on its operation development, quality of assets, business growth strategies, and financial and operation targets. Furthermore, after disposing of part or all its existing NPAs, the Group may not be able to continue acquiring additional NPAs or explore other sources of income. Therefore, the amount of assets the Group disposed of and income therefrom for each year in the past do not reflect its disposal plans and possible income in the future.

**The Group relies heavily on information technology systems to process and record its transactions and offer online products and services.**

The Group's business operation relies heavily on the ability of its information technology systems to store and analyse a large amount of information, accurately process a vast number of transactions across numerous and diverse markets and offer services and products in a timely manner. The information technology system is vulnerable to disruptions as a result of various factors, including, without limitation, natural disasters, power failures, computer viruses, spam attacks, human errors and unauthorised access. A prolonged disruption to or failure of the Group's information technology systems would limit its ability to monitor and manage collections, maintain financial and operating controls, monitor and manage its risk exposures across the Group, keep accurate records, provide high-quality customer service and to develop and sell profitable products and services. The Group has established back-up centres to carry on principal functions in the event of a catastrophe or failure of its systems, including those caused by human errors. However, there is no assurance that the operations of the Group will not be materially disrupted if any of these systems fail. In addition, the Group provides online financial services such as securities and futures to its customers. Disruption to or instability of the online financial services platform or mobile service platform could harm the Group's business and reputation.

**The Group may not be able to fully detect money laundering and other illegal or improper activities in its business operations on a timely basis.**

The Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and overseas (including Hong Kong). The PRC's anti-money laundering law requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require the Group to, among other things, establish a customer identification system in accordance with relevant rules, record the details of customer activities and report suspicious transactions to relevant authorities.

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures in some cases have only been recently adopted and may not completely eliminate instances in which it may be used by other parties to engage in money laundering and other illegal activities. In the event that the Group fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze its assets or impose fines or other penalties on it. There can be no assurance that the Group will not fail to detect money laundering or other illegal or improper activities. Such failure of the Group may affect its business reputation, financial condition and results of operations.

**The Group's businesses may be adversely affected if it is unable to retain and hire qualified employees.**

The success of the Group's business is dependent to a large extent on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of the financial services industry. These key personnel include members of the Group's senior management, licensed sponsor representatives, experienced investment managers, product development personnel, research analysts, traders, marketing and sales staff and information technology and other operations personnel. Competition for attracting and retaining these individuals is intensive. Such competition may require the Group to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect the Group's financial condition and results of operations. As a result, the Group may be unable to attract or retain these personnel to achieve its business objectives and the failure to do so could severely disrupt its business and prospects. For example, the Group may not be able to hire enough qualified personnel to support its new products and services to remain competitive. In addition, various business of the Group frequently involves complicated online operation steps, which are susceptible to operation errors if its employees are tired or incompetent, or make wrong judgments. Furthermore, as the Group expands its business or hires new employees, the employees may take time to get accustomed to any new standard procedures and consequently may not comply with the standard procedures of any new business in an accurate and timely manner. The occurrence of any of the events discussed above could lead to unexpected loss to the Group and affect its revenue and financial conditions. If any of the senior management or other key personnel of the Group joins or establishes a competing business, the Group may lose some of its customers, which may have a material adverse effect on its business.

**The Group may not be able to detect and prevent fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties.**

The Group may be exposed to fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by governmental authorities, as well as affect its reputation. These misconducts could include:

- hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- intentionally concealing material facts, or failing to perform necessary due diligence procedures designed to identify potential risks, which are material to the Group in deciding whether to make investments or dispose of assets;
- improperly using or disclosing confidential information;
- recommending products, services or transactions that are not suitable for the Group's customers;
- misappropriation of funds;
- conducting transactions that exceed authorised limits;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products;
- engaging in unauthorised or excessive transactions to the detriment of the Group's customers; or
- otherwise not complying with applicable laws or the Group's internal policies and procedures.

The Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, such internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner if at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Group takes to prevent and detect such activities may not be effective.

There is no assurance that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result.

**Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect the Group's business.**

As the Group expands the scope of its business and client base, it is increasingly important for it to address potential conflicts of interest, including situations where its services to a particular client or its own investments or other areas are at conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of its businesses have access to material non-public information that may not be shared with another business within the firm and situations where the Group may be a counterparty of an entity with which the Group also has an advisory or other relationship.

The Group has extensive procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among its businesses. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and the Group's reputation could be damaged and the willingness of clients to enter into transactions with the Group may be adversely affected if the Group fails, or appears to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions against the Group.

**Litigation and regulatory investigations and the resulting sanctions or penalties may adversely affect the Group's reputation, business, results of operations and financial condition.**

The Group is exposed to risks associated with litigations relating to its operations, including the risk of lawsuits and other legal actions relating to information disclosure, financial products design, sales practises, fraud and misconduct, as well as protection of personal and confidential information of customers. The Group may be subject to arbitration claims and lawsuits in the ordinary course of its business. The Group may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies actions brought against it, which may result in settlements, injunctions, fines, penalties or other results adverse to it that could harm its reputation. Even if the Group is successful in defending itself against these actions, the costs of such defence may be significant. In addition, the Group may be subject to regulatory actions from time to time. A substantial legal liability or a significant regulatory action could have a material and adverse effect on the Group's operations, reputation and business prospects.

There is no assurance that the number of legal claims and amount of damages sought in litigation and regulatory proceedings may not increase in the future. A significant judgment or regulatory action against the Group or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees would have a material adverse effect on its liquidity, business, financial condition, results of operations and prospects.

**Catastrophic events, which are unpredictable by nature, could materially and adversely affect the profitability of the Group.**

The Group's businesses expose it to risks arising out of catastrophic events, which are unpredictable by nature. Catastrophes can be caused by various natural hazards, including hurricanes, typhoons, floods, earthquakes, severe weather, fires and explosions. Catastrophes can also be artificially induced, such as terrorist attacks, wars and industrial or engineering accidents. In addition, a health epidemic or pandemic such as severe acute respiratory syndrome (or SARS), the H5N1 strain of bird flu (or avian flu) and the H1N1 strain of influenza A can adversely affect the Group's business. The occurrence of these events may increase the cost of doing business, adversely affect the Group's operations or those of its clients, or result in losses in the Group's investment portfolios, due to, among other things, the failure of its counterparties to perform or significant volatility or disruption in financial markets, all of which may in turn adversely affect the Group's business, financial condition, results of operations and prospects.

**RISKS RELATING TO THE PRC**

**The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business.**

The Group derives substantial revenues from its operations in the PRC. In addition, the Group intends to further expand its business in the PRC. The Group will, accordingly, be subject to economic, political and legal developments in the PRC as well as in the economies in the surrounding region.



The PRC economy differs from the economies of most developed countries in many respects, including:

- the extent of government involvement,
- the level of development,
- the growth rate,
- the economic and political structure,
- the control of foreign exchange,
- the allocation of resources, and
- the regulation of capital reinvestment.

While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may have a negative effect on the Group. For example, the Group may be adversely affected by the PRC government's control over capital investments or any types of margin requirement or any changes in tax or labour regulations or foreign exchange controls that are applicable to it.

Since late 2003, the PRC government has implemented a number of measures, such as raising bank reserves against deposit rates, to place additional limitations on the ability of commercial banks to make loans and raise interest rates, requesting the minimum capital margin. These actions, as well as future actions and policies of the PRC government, could materially and adversely affect the Group's liquidity and access to capital and the Group's ability to operate its businesses. A significant portion of the Group's assets is located in the PRC and a significant portion of the Group's revenues is derived from its operations in the PRC. In addition, the Group is subject to various regulatory requirements (including but not limited to maintenance of financial leverage ratio) imposed by the PRC government. Compliance with such regulatory requirements could result in the Group having to take certain actions or decisions which are not commercially favourable to the Group.

**Certain facts and statistics in this Offering Circular are derived from publications not independently verified by the Issuer, the Guarantor, the Company, the Joint Lead Managers or their respective advisers.**

Some of the facts and statistics in this Offering Circular relating to the PRC, the PRC economy and industries in which the Group operates and its related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer, the Guarantor and the Company believe to be reliable. However, none of the Issuer, the Guarantor and the Company can guarantee the quality or reliability of certain source materials. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practise and other problems, the statistics in this Offering Circular relating to the PRC economy and the industries in which the Group operates and its related industry sectors may be inaccurate. In all cases, Noteholders should consider how much weight or importance they should attach to or place on such facts and statistics.

**Interpretation and enforcement of the laws in the PRC may involve uncertainties.**

Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practises in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to domestic political and policy changes.



**Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.**

The Terms and Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the “Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned”, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders’ ability to initiate a claim outside of Hong Kong will be limited.

**Future fluctuations in the value of the Renminbi could have an adverse effect on the Group’s financial condition and results of operations.**

While the Group’s recording currency in the Renminbi for the purposes of its financial statements, a small portion of the Group’s revenue, expenses and bank borrowings are denominated in Hong Kong dollar and other foreign currencies as a result of the Guarantor’s activities. As a result, fluctuations in exchange rates, particularly between the Renminbi, the Hong Kong dollar or the U.S. dollars, could affect the Group’s profitability and may result in foreign currency exchange losses of its foreign currency-denominated assets and liabilities.

The exchange rate of the Renminbi against the Hong Kong dollar, U.S. dollars and other currencies fluctuates and is affected by, among other things, changes in the PRC’s, as well as, international, political and economic conditions and the PRC government’s fiscal and currency policies. Since 1994, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and the U.S. dollars, has been based on rates set daily by the PBOC, based on the previous business day’s inter-bank foreign exchange market rates and exchange rates in global financial markets. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On 16 April 2012, the PBOC enlarged the previous floating band of the trading prices of the Renminbi against the U.S. dollars in the inter-bank spot foreign exchange market from 0.5 per cent. to 1 per cent. in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand with reference to a basket of currencies. Then, on 17 March 2014, the PBOC broadened the floating band to 2.0 per cent. On 19 June 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollars. There is no assurance that the Renminbi will not experience significant appreciation against the Hong Kong dollar or U.S. dollars in the future. Any significant increase in the value of the Renminbi against foreign currencies could reduce the value of the Group’s foreign currency-denominated revenue and assets.

**Under the Enterprise Income Tax Law, the Issuer or the Guarantor may be classified as a “resident enterprise” of the PRC. Such classification could result in unfavourable tax consequences to the Issuer and its non-PRC Noteholders.**

Under the Enterprise Income Tax Law (the “**EIT Law**”) of the PRC, an enterprise established outside the PRC with a “*de facto* management body” within the PRC is deemed a “resident enterprise”, meaning that it can be treated as a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as “tax-exempt income”. The implementing rules of the EIT Law define “*de facto* management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 (the “**Circular 82**”) provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a “resident enterprise” with a “*de facto* management body” located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within the PRC; and (iv) at least half of the enterprise’s directors with voting rights or senior management frequently reside within the PRC. On 1 September 2011, the State Administration of Taxation promulgated the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group (the “**Circular 45**”), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise “controlled by a PRC enterprise or PRC enterprise group”. Circular 45 identifies and defines two ways for a foreign enterprise “controlled by a PRC enterprise or a PRC enterprise group” to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its *de facto* management body is located in the PRC based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

The Issuer and the Guarantor believe that they are currently not PRC resident enterprises, and as confirmed by the Issuer and the Guarantor, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that it is considered as a “resident enterprise” for the purpose of the EIT Law. However, neither the Issuer nor the Guarantor can assure Noteholders that it will not be deemed a “resident enterprise” under the EIT Law and other applicable implementation regulations and, therefore, be subject to enterprise income tax at a rate of 25 per cent. on its global income in the future. If neither the Issuer nor the Guarantor are considered to be PRC resident enterprises for EIT Law purposes, the payment of interest on the Notes to the overseas Noteholders will not be subject to PRC withholding tax.

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals, subject to adjustment by applicable treaty. The EIT Law’s implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in the PRC. If the Issuer or the Guarantor is deemed a PRC resident enterprise for tax purposes, interest paid to overseas Noteholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10 per cent. for enterprise Noteholders and 20 per cent. for individual Noteholders (or a lower treaty rate, if any).

Any gains realised on the transfer of the Notes by such Noteholders may also be subject to PRC income tax at a rate of 10 per cent. for enterprise Noteholders or 20 per cent. for individual Noteholders, if such gains are regarded as PRC-sourced. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

If a Noteholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on capital gains on the transfer of the Notes, the value of the relevant Noteholder’s investment in the Notes may be materially and adversely affected.

## **RISKS RELATING TO THE NOTES AND THE GUARANTEE OF THE NOTES**

### **The Notes and the Guarantee of the Notes are unsecured obligations.**

As the Notes and the Guarantee of the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

### **There are exceptions to the restrictive operating covenants relating to the Notes.**

The Trust Deed will contain various covenants intended to benefit the Noteholders that limit the ability of the Issuer, the Guarantor or, as the case may be, the Company to, among other things, create Security Interests (as defined in the Terms and Conditions) and incur Relevant Indebtedness (as defined in the Terms and Conditions) outside the PRC. Under such covenants, however, the Company and its subsidiaries (other than the Guarantor and its subsidiaries) may create Security Interests on up to five per cent. of the Group's total assets to secure any Relevant Indebtedness outside the PRC without securing the Notes at least equally and ratably therewith. If the Company or such subsidiary does so, the Notes and the Guarantee of the Notes will be effectively subordinated to such Relevant Indebtedness to the extent of the value of assets serving as security therefor.

### **The Notes may not be a suitable investment for all investors.**

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **An active trading market for the Notes may not develop.**

The Notes are a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for the Notes to be admitted for trading on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Notes will develop or as to the

liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. Liquidity of the Notes will be adversely affected if the Notes are held or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

**The liquidity and price of the Notes following the offering may be volatile.**

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/ or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the department store industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

**The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other countries.**

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the Hong Kong Stock Exchange. The disclosure standards imposed by the Hong Kong Stock Exchange may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what Noteholders are accustomed to.

**The ratings of the Notes may be downgraded or withdrawn.**

The Notes are expected to be assigned a rating of "Baa1" by Moody's, "BBB+" by S&P and "A" by Fitch. The ratings represent only the opinions of the rating agencies and their assessment of the ability of the Issuer, the Guarantor and the Company to perform their respective obligations under the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking and their credit risks in determining the likelihood that payments will be made when due under the Notes. Ratings are not recommendations to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. None of the Issuer, the Guarantor or the Company is obligated to inform Noteholders if the ratings are lowered or withdrawn. Each rating should be evaluated independently of the other rating. A downgrade or withdrawal of the ratings may materially and adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

**Changes in interest rates may have an adverse effect on the price of the Notes.**

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

**Investment in the Notes is subject to exchange rate risks.**

Investment in the Notes is subject to exchange rate risks. The value of the U.S. dollars against the Renminbi and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. All payments of interest and principal with respect to the Notes will be made in U.S. dollars. As a result, the value of these U.S. dollars payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollars depreciates against the Renminbi or other foreign currencies, the value of a Noteholder's investment in Renminbi or other applicable foreign currency terms will decline.

**The Issuer's ability to make payments under the Notes will depend on timely payments under on-lent loans of the proceeds from the issue of the Notes.**

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the principal purpose of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to other entities of the Group. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Notes depends on timely payments under such loans. In the event that the recipients of such on-lent loans do not make such payments due to limitation in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Notes may be adversely affected.

**The Issuer may be unable to redeem the Notes.**

On certain dates, including the occurrence of an early redemption event and at maturity of the Notes, the Issuer may, and at maturity, will be required to redeem all of the Notes. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to redeem the Notes by the Issuer, in such circumstances, would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Guarantor and the Company and their respective subsidiaries.

**The Notes and the Guarantee of the Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.**

The Notes and the Guarantee of the Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and the Guarantor's subsidiaries, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Issuer's and the Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or Guarantee of the Notes or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor are creditors of that subsidiary). Consequently, the Notes and the Guarantee of the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Issuer or the Guarantor may in the future acquire or establish.

The Notes and the Guarantee of the Notes are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) rank equally in right of payment with all the Issuer's and the Guarantor's other present and future unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and the Guarantor's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders ratably with all of the Issuer's or the Guarantor's other unsecured creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

**The insolvency laws of the British Virgin Islands and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.**

As the Issuer is incorporated under the laws of the British Virgin Islands, any insolvency proceeding relating to the Issuer, even if brought in other jurisdictions, would likely involve the British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.



**If the Issuer, the Guarantor and the Company are unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.**

If the Issuer, the Guarantor and the Company are unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, the Guarantor and the Company, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's, the Guarantor's or the Company's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's, the Guarantor's or the Company's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's, the Guarantor's or the Company's other debt agreements. If any of these events occur, the Issuer, the Guarantor and the Company cannot assure holders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer, the Guarantor and the Company would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

**Each series of Notes will be represented by a Global Note Certificate and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems.**

Each series of Notes will be represented by beneficial interests in a Global Note Certificate. Such Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in a Global Note Certificate, investors will not be entitled to receive individual Note certificates. The Clearing System will maintain records of the beneficial interests in each Global Note Certificate. While each series of Notes are represented by a Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While each series of Notes are represented by a Global Note Certificate, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the Notes of the relevant series by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing System to receive payments under the Notes of the relevant series. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Note Certificate.

Holders of beneficial interests in a Global Note Certificate will not have a direct right to vote in respect of the Notes of the relevant series. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System to appoint appropriate proxies.

**The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies.**

As a holding company, the Guarantor depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes and the Guarantee of the Notes. The Guarantor is recently established and presently has no substantive assets and no previous operating history. As at 31 December 2013, the Guarantor had net assets of U.S.\$8,419,872. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. The Guarantor cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity



ownership in these companies. Some portfolio companies may conclude that it is in the best interest of their shareholders to retain earnings, if any, for use in the operation and expansion of their businesses. The shareholders or the board of directors of a portfolio company (as the case may be) have the power to determine whether to pay dividends based on conditions then existing, including the company's earnings, financial condition and capital requirements, as well as economic and other conditions the shareholders or the board may deem relevant. In particular, the Guarantor does not maintain complete control over its jointly controlled entities or associates in which it might hold a minority interest. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments on the Notes. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes and the Guarantee of the Notes.

**The Notes are redeemable in the event of certain withholding taxes being applicable.**

No assurances are made by the Issuer, the Guarantor or the Company as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Hong Kong or the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions the Issuer, the Guarantor, or as the case may be, the Company is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time in the event it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Hong Kong or the PRC (only where such tax or withholding is in excess of 10 per cent.) or any political subdivision or any authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 9 July 2014.

**A tax for withholding may be payable under the United States Foreign Account Tax Compliance Act if an investor or custodian of the Notes is unable to receive payments free of withholding.**

Whilst the Notes are in global form and held within the Clearing Systems, in all but the most remote circumstances, it is not expected that the United States Foreign Account Tax Compliance Act ("**FATCA**") will affect the amount of any payment received by the Clearing Systems (see "*Taxation — FATCA*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's and the Guarantor's obligations under the Notes are discharged once they have paid the common depository for the Clearing Systems (as registered holder of the Notes) and the Issuer and the Guarantor have therefore no responsibility for any amount thereafter transmitted through hands of the Clearing Systems and custodians or intermediaries.

**The Group may issue additional Notes in the future.**

The Group may, from time to time, and without prior consultation of the Noteholders, create and issue further Notes (see "*Terms and Conditions of the 2017 Notes — Further Issues*" and "*Terms and Conditions of the 2019 Notes — Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

**The Trustee may request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction.**

In certain circumstances, including without limitation giving notice to the Issuer pursuant to Condition 8 of the Terms and Conditions and taking enforcement steps pursuant to Condition 13 of the Terms and Conditions, the Trustee may, at its sole discretion, request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Trust Deed or the Terms and Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

**Decisions that may be made on behalf of all Noteholders may be adverse to the interests of individual Noteholders.**

The Terms and Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders may be adverse to the interests of the individuals.

## **RISKS RELATING TO THE KEEPWELL DEED AND THE DEED OF UNDERTAKING**

**Neither the Keepwell Deed nor the Deed of Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Notes and the Guarantee of the Notes.**

The Company will enter into the Keepwell Deed and the Deed of Undertaking in connection with the issuance of the Notes. See “*Offer Structure — The Keepwell Deed*”, “*Description of the Keepwell Deed*”, “*Offer Structure — The Deed of Undertaking*” and “*Description of the Deed of Undertaking*”. Upon a breach of the Keepwell Deed or the Deed of Undertaking, the Trustee may take action against the Company to enforce the provisions of the Keepwell Deed or the Deed of Undertaking. However, none of the Keepwell Deed, the Deed of Undertaking or any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligations of the Issuer under the Notes or the Guarantor under the Guarantee of the Notes. Accordingly, pursuant to the terms of the Keepwell Deed, the Company will only be obliged to make sufficient funds available to the Issuer and the Guarantor or, in the case of the Deed of Undertaking, undertake certain specified actions, rather than assume the payment obligation as in the case of a guarantee. Furthermore, even if the Company intends to perform its obligations under the Keepwell Deed and the Deed of Undertaking, depending on the manner in which the Company arranges for sufficient funds to meet the payment obligations of the Issuer under the Notes or the Guarantor under the Guarantee of the Notes, such performance may be subject to obtaining prior consent or approvals from relevant PRC governmental authorities, including the NDRC, the MOFCOM and the SAFE and their respective local counterparts.

In addition, under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee, among other things, to cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Notes and the Guarantee of the Notes. However, any claim by the Issuer, the Guarantor and/or the Trustee against the Company in relation to the Keepwell Deed or the Deed of Undertaking will be effectively subordinated to all existing and future obligations of the Company’s subsidiaries (which do not provide a guarantee in respect of the Notes), particularly the Company’s subsidiaries in the PRC, and all claims by creditors of such subsidiaries in the PRC (which do not provide a guarantee in respect of the Notes) will have priority to the assets of such entities over the claims of the Issuer, the Guarantor and the Trustee under the Keepwell Deed and the Deed of Undertaking.

**Performance by the Company of its undertaking under the Deed of Undertaking is subject to approvals of the PRC governmental authorities and certain limitations.**

The Company intends to assist the Issuer and the Guarantor to meet their respective obligations under the Notes and the Guarantee of the Notes by entering into the Deed of Undertaking. Under the Deed of Undertaking, the Company agrees to, upon the receipt of the Trigger Notice, grant the Loan, make the Investment or effect the Purchase from the Guarantor and/or any other subsidiary of the Company incorporated outside the PRC as designated by the Company, or in the absence of a designation, all the subsidiaries of the Company incorporated outside the PRC (each, a “**Relevant Transferor**”), in each case at an amount, purchase price or investment amount not lower than the aggregate of (a) an amount sufficient to enable the Issuer and the Guarantor to discharge in full their respective obligations under the Notes, the Guarantee of the Notes and the Trust Deed that are due and owing as at the date of such Trigger Notice, (b) an amount being the interest payable in respect of the immediately following interest period on the Notes and (c) all costs, fees and expenses and other amounts payable in U.S. dollars to the Trustee and the Agents as provided in the Deed of Undertaking.

Performance by the Company of its undertakings under the Deed of Undertaking is subject to the approval of or registration with (as the case may be):

- the MOF;
- the CBRC;
- the NDRC;
- the MOFCOM;
- the SAFE;
- the relevant Administration for Industry and Commerce; and
- the relevant tax authority.

As the approval or registration process is beyond the control of the Company, there can be no assurance that the Company will successfully obtain any of the requisite approvals in time, or at all. In the event that the Company fails to obtain the requisite approvals, the Issuer and the Guarantor may still have insufficient funds to discharge their outstanding payment obligations to the Noteholders.

Further, in the event of an insolvency of a Relevant Transferor, any sale proceeds received by that Relevant Transferor may be subject to the insolvency claims of third parties. Where a Relevant Transferor is the Guarantor, the Trustee’s claim against such sale proceeds will be an unsecured claim and may rank lower in priority to any claims by secured third-party creditors of such Relevant Transferor. Where a Relevant Transferor is not the Guarantor, the Trustee will not have a direct claim against the sale proceeds received by such Relevant Transferor.

**Performance by the Company of its undertaking under the Deed of Undertaking may be subject to consent from third party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third party creditors.**

Under the terms of the Deed of Undertaking, the Company agrees to purchase, upon the receipt of the Trigger Notice from the Relevant Transferor the equity interest of wholly-owned and indirectly held subsidiaries of the Company held by it. The ability of the Company to perform this undertaking may be affected by any present or future financing agreements of the Company and its subsidiaries:

- in the event that such financial agreements contain non-disposal or other restrictive covenants that would prevent the sale of an equity interest by a Relevant Transferor, the Company and its subsidiaries would need to obtain the consent from the third party creditor before the Relevant Transferor is able to proceed with the sale of such equity interest; and
- in the event that certain equity interests have been secured in favour of third party creditors, the Company and its subsidiaries would need to arrange for these security interests to be released before the Relevant Transferor is able to proceed with the sale of such equity interests.

Under the Terms and Conditions and the Keepwell Deed, there are no restrictions on the Company or its subsidiaries entering into financing agreements with such non-disposal or other restrictive covenants or securing the equity interests of any member of the Group in favour of its creditors (not being holders of Relevant Indebtedness issued outside the PRC by the Company or any of its subsidiaries).

In the event the obligation to purchase under the Deed of Undertaking becomes effective, there is no assurance that the Relevant Transferor will be able to obtain any required consents from its creditors or that it will be able to arrange for any existing security arrangement to be released in order for the sale of the equity interest to proceed. If the Relevant Transferor is not able to do so, it may need to repay the indebtedness owed to its third party creditors in order to be able to sell the relevant equity interests to the Company. In the event that the required consents or waivers from third party creditors are not able to be obtained and in the case of third party creditors, the relevant indebtedness cannot be repaid in the timely manner, the sale of the equity interest may not be able to proceed and the Issuer and the Guarantor may have insufficient funds to discharge their respective payment obligations to the Noteholders.

## TERMS AND CONDITIONS OF THE 2017 NOTES

*The following is the text of the Terms and Conditions which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates issued in respect of the Notes:*

The U.S.\$300,000,000 3.00 per cent. Guaranteed Notes due 2017 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Huarong Finance Co., Ltd. (the “**Issuer**”) are constituted by, are subject to, and have the benefit of, a trust deed dated 17 July 2014 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Huarong (HK) International Holdings Limited (華融 (香港) 國際控股有限公司) (the “**Guarantor**”), China Huarong Asset Management Co., Ltd. (the “**Company**”) and The Bank of New York Mellon, London Branch as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated on or about 17 July 2014 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Guarantor, the Company, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), the transfer agent named therein (the “**Transfer Agent**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the “**Agents**” are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an “**Agent**” is to any one of them. The Notes also have the benefit of (i) a keepwell deed dated on or about 17 July 2014 (as amended or supplemented from time to time, the “**Keepwell Deed**”) between the Issuer, the Guarantor, the Company and the Trustee and (ii) a deed of equity interest purchase, investment and liquidity support undertaking dated on or about 17 July 2014 (as amended or supplemented from time to time, the “**Deed of Undertaking**”) between the Issuer, the Guarantor, the Company and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Undertaking and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Undertaking applicable to them. Copies of the Trust Deed, the Agency Agreement, the Deed and the Deed of Undertaking are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London, E14 5AL, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

### 1. Form, Denomination, Status and Guarantee

- (a) *Form and denomination:* The Notes are in registered form in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an “**Authorised Denomination**”).
- (b) *Status of the Notes:* The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (c) *Guarantee of the Notes:* The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the “**Guarantee of the Notes**”) constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the “**Global Note Certificate**”) substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), and will be exchangeable for individual Note Certificates (as defined below) only in the circumstances set out therein.*



## 2. Register, Title and Transfers

- (a) *Register*: The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes, the Trust Deed, the Keepwell Deed or the Deed of Undertaking under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

*Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.*

- (d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 3. Covenants

- (a) *Limitation on Security Interests*: So long as any Note remains outstanding (as defined in the Trust Deed), each of the Guarantor and the Issuer will not, and will not permit any of its respective Subsidiaries (other than any Listed Subsidiary of the Guarantor) to, create, incur, assume or permit to exist any Security Interest upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or any such Subsidiary (or any guarantees or indemnity in



respect thereof) outside of the PRC without, in any such case, making effective provision whereby the Notes and the Guarantee of the Notes will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Security Interest as shall have been approved by the Noteholders as provided in the Trust Deed, for so long as such Indebtedness will be so secured.

The foregoing restriction will not apply to:

- (i) any Security Interest which is in existence on or prior to the Issue Date;
  - (ii) any Security Interest either over any asset acquired after the Issue Date which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary after the Issue Date which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Indebtedness originally secured (but the principal amount secured by any such Security Interest may not be increased); *provided that* any such Security Interest was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;
  - (iii) any Security Interest created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the Issue Date; *provided, however, that* (A)(x) any such Security Interest shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired) and; (y) to the extent that such Security Interest shall secure any other property or asset, the principal amount of the debt encumbered by such Security Interest shall not exceed the cost of the applicable acquisition, development or improvement and (B) any such Security Interest shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
  - (iv) any Security Interest on any loan extended by a Finance Subsidiary to the Guarantor, the Issuer or any of its Subsidiaries or on any Capital Stock of a Finance Subsidiary; and
  - (v) any renewal or extension of any of the Security Interests described in the foregoing clauses which is limited to the original property or asset covered thereby.
- (b) *Rating Maintenance:* So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, the Issuer shall use all reasonable endeavours to maintain a rating on the Notes by a Rating Agency.
- (c) *Limitation on Business Activities:* For so long as the Notes are outstanding:
- (i) the Issuer will conduct no business or any other activities other than the offering, sale or issuance of notes (including any further securities issued in accordance with Condition 14 (*Further Issues*)), the lending of the proceeds thereof to the Guarantor or a Subsidiary of the Company, directly or indirectly, and located in a jurisdiction outside the PRC, the maintenance of the Issuer's corporate existence and any other activities in connection therewith;
  - (ii) the Issuer will not issue any Capital Stock other than the issuance of its ordinary shares to the Guarantor; and
  - (iii) the Guarantor or the Issuer will not commence or take any action to cause a winding-up or liquidation of the Issuer.
- (d) *Financial Statements etc.:* So long as any of the Notes remain outstanding,
- (i) each of the Issuer and the Guarantor will furnish the Trustee with:
    - (A) a Compliance Certificate (on which the Trustee may rely as to such compliance without liability to any Noteholder) within 180 days after the end of the fiscal year of the Guarantor;
    - (B) as soon as they are available, but in any event within 180 days after the end of each Relevant Period, copies of the Guarantor Audited Financial Statements audited by a member firm of independent accountants; and

- (C) as soon as they are available, but in any event within 135 days after the end of each Relevant Period, copies of Guarantor Unaudited Financial Statements prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period,

*provided however*, that if at any time the Capital Stock of the Guarantor is listed for trading on a recognised stock exchange, the Guarantor will deliver to the Trustee, as soon as they are available but in any event not more than 10 days after any financial or other reports of the Guarantor are filed with any recognised exchange on which the Guarantor's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (A) and (B) above.

The Issuer shall deliver to the Trustee as soon as possible, and in any event within 10 days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and a Compliance Certificate setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto (if any).

- (ii) the Company will furnish the Trustee with:

- (A) a Compliance Certificate of the Company (on which the Trustee may rely as to such compliance) and a copy of the relevant Company Audited Financial Reports within 120 days of the end of each Relevant Period prepared in accordance with PRC GAAP (audited by an internationally recognised firm of independent accountants) of the Company and its Subsidiaries and if such statements shall be in the Chinese language, an English translation of the same translated by (x) an internationally recognised firm of accountants or (y) a professional translation service provider and checked by an internationally recognised firm of accountants; and
- (B) a copy of the Company Unaudited Financial Reports within 60 days of the end of each Relevant Period prepared on a basis consistent with the Company Audited Financial Reports and if such statements shall be in the Chinese language, together with an English translation of the same and translated by (x) an internationally recognised firm of accountants or (y) a professional translation service provider and checked by an internationally recognised firm of accountants,

*provided that*, if at any time the Capital Stock of the Company is listed for trading on a recognised stock exchange, the Company may make available to the Trustee, as soon as they are available but in any event not more than 10 days after any financial or other reports of the Company are filed with the exchange on which the Company's Capital Stock is at such time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in this Condition 3(d)(ii) (*Financial Statements etc.*).

- (e) *Consolidation, Merger and Sale of Assets*: Neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, are not the surviving entity, or convey, transfer or lease its properties and assets substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation (which, in the case of the Issuer, is the Guarantor or is a Person 100 per cent. of the equity of which is directly owned by the Guarantor) validly existing under the laws of the jurisdiction of its organisation and such Person expressly assumes by an supplemental trust deed to the Trust Deed all the obligations of the Guarantor or the Issuer under the Trust Deed, the Notes or the Guarantee of the Notes, as the case may be;

- (ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- (iii) any such Person not organised and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) Hong Kong or any successor jurisdiction (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental trust deed that its jurisdiction of organisation or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions (as defined in Condition 7 (*Taxation*)); and
- (iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Subsidiaries would become subject to a Security Interest that would not be permitted under Condition 3(a) (*Limitation on Security Interests*) above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Notes at least equally and ratably with the Indebtedness secured by such Security Interest or by such other Security Interest as shall have been approved by Holders of the Notes pursuant to the Trust Deed.

In these Conditions:

**“Capital Stock”** means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);

**“Company Audited Financial Reports”** means the annual audited consolidated statements of financial position, statements of income, statements of cash flows and statement of changes in equity of the Company and its Subsidiaries and statements of financial position, statements of income, statements of cash flows and statement of changes in equity of the Company together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

**“Company Unaudited Financial Reports”** means the semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated statements of financial position, statements of income, statements of cash flows and statement of changes in equity of the Company and its Subsidiaries and statements of financial position, statements of income, statements of cash flows and statement of changes in equity of the Company together with any statements, reports (including any directors' and auditors' review reports, if any) and notes attached to or intended to be read with any of them, if and to the extent such statements, reports and the notes are prepared by the Company;

**“Compliance Certificate”** means a certificate of each of the Issuer, the Guarantor and the Company signed by any authorised representative certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer, the Guarantor or (as the case may be) the Company as at a date (the **“Certification Date”**) not more than five days before the date of the certificate:

- (a) no Event of Default, or any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (b) each of the Issuer, the Guarantor and the Company has complied with all its obligations under this Trust Deed, the Notes, the Keepwell Deed and the Deed of Undertaking;

**“Finance Subsidiary”** means any Person who is wholly-owned by the Guarantor and who does not engage in any business activity except (a) the incurrence of Indebtedness to Persons other than the Company, the Guarantor, the Issuer or any of their respective Subsidiaries, (b) the ownership of shares of another Finance Subsidiary, (c) activity related to the establishment or maintenance of that Person's corporate existence, and (d) any other activity in connection with or incidental to activities referred to in (a), (b) or (c) above (but for the avoidance of doubt does not include the Issuer);

**“Guarantor Audited Financial Reports”** means the annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity of the Guarantor and its Subsidiaries and statement of financial position of the Guarantor together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them;

**“Guarantor Subsidiary”** means a Subsidiary of the Guarantor;

**“Guarantor Unaudited Financial Reports”** means the semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity of the Guarantor and its Subsidiaries and statement of financial position of the Guarantor together with any statements, reports (including any directors’ and auditors’ review reports, if any) and notes attached to or intended to be read with any of them;

**“Hong Kong”** means the Hong Kong Special Administrative Region of the PRC;

**“Independent Investment Bank”** means an independent investment bank of international repute (acting as an expert) selected by the Company (at the expense of the Company) and notified to the Trustee in writing;

**“Indebtedness”** of any Person means, at any date, without duplication, (a) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (b) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (c) all Indebtedness of others guaranteed by such Person;

**“Listed Subsidiary”** means any Subsidiary of the Company or the Guarantor, as the case may be, the shares of which are at the relevant time listed on any stock exchange, and any Subsidiary of such Listed Subsidiary;

**“Person”** means any state-owned enterprise, individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity;

**“PRC”** means the People’s Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

**“PRC GAAP”** means the Accounting Standards for Business Enterprises in the PRC;

**“Rating Agency”** means (a) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“**S&P**”), (b) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“**Moody’s**”), or (c) Fitch (Hong Kong) Limited, and its successors (“**Fitch**”); and (d) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, the Guarantor and the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be;

**“Relevant Indebtedness”** of any Person means (a) any present or future indebtedness that is in the form of, or represented or evidenced by any bonds, notes, debentures, debenture stocks, loan stock certificates or other securities, which are, or intended to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter market or other securities market and has a final maturity of one year or more from its date of incurrence or issuance; and (b) all Relevant Indebtedness of others guaranteed by such Person;

**“Relevant Period”** means (a) in relation to each of the Company Audited Financial Reports and the Guarantor Audited Financial Reports, each period of twelve months ending on the last day of their respective financial year (being 31 December of that financial year) and (b) in relation to the Company Unaudited Financial Reports and Guarantor Unaudited Financial Reports, each period of six months ending on the last day of their respective financial year (being 30 June of that financial year);

**“Security Interest”** means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind;

“**Subsidiary**” means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person; and

“**Voting Shares**” means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

*For a description of the terms of the Keepwell Deed and the Deed of Undertaking, see the sections “Description of Keepwell Deed” and “Description of the Deed of Equity Interest Purchase and, Investment and Liquidity Support Undertaking”.*

#### **4. Interest**

The Notes bear interest from 17 July 2014 (the “**Issue Date**”) at the rate of 3.00 per cent. per annum, (the “**Rate of Interest**”) payable in arrear on 17 January and 17 July in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.\$3,000 in respect of each Note of U.S.\$200,000 denomination and U.S.\$15 in respect of each U.S.\$1,000 principal amount of the Notes. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where:

“**Calculation Amount**” means U.S.\$1,000; and

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

#### **5. Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 17 July 2017, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:
  - (i) (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 9 July 2014; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or



- (ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 9 July 2014; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

*provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by any authorised representative of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by any authorised representative of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances.

The Trustee shall be entitled to accept and rely upon such certificate (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b) (*Redemption for tax reasons*).

- (c) *Redemption for Change of Control*: At any time following the occurrence of a Change of Control Triggering Event, each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the Noteholder must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer and the Guarantor shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control. Within 30 days following the first day on which it becomes aware of the occurrence of any Change of Control Triggering Event, the Issuer and the Guarantor shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*), which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Change of Control*).

- (d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (c) (*Redemption for Change of Control*) above.
- (e) *Purchase*: The Issuer, the Guarantor, the Company or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (f) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor, the Company or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.



In Condition 5(c) (*Redemption for Change of Control*):

a “**Change of Control**” means the occurrence, at any time, of any of the following:

- (a) the Company ceasing to own and control, directly or indirectly 100 per cent. of the Voting Shares (as defined in Condition 3 (*Covenants*)) of the Guarantor; or
- (b) the Guarantor ceasing to own and control directly 100 per cent. of the Voting Shares of the Issuer; or
- (c) the government of the PRC or Persons controlled by the government of the PRC ceasing to Control the Company;

“**Change of Control Triggering Event**” means a Change of Control, provided however, that, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline. No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated;

“**Control**” means directly or indirectly (a) owning and controlling at least 50.1 per cent. of the Voting Shares of the Company; or (b) nominating or appointing a majority of the members of the Company’s board of directors or other equivalent or successor governing body; or (c) possessing the ability or power to direct the management policies of the Company;

“**Investment Grade**” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any internationally recognised rating agency or agencies, as the case may be, which shall have been designated by the Guarantor as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be;

“**Rating Date**” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (a) a Change of Control and (b) a public notice of the occurrence of a Change of Control or of the intention by any Person or Persons to effect a Change of Control; and

“**Rating Decline**” means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by any Person or Persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

- (a) in the event the Notes are (i) on the Rating Date (A) rated by three Ratings Agencies and (B) rated Investment Grade by each such Rating Agency, and (ii) cease to be rated Investment Grade by at least two of such Rating Agencies; or
- (b) in the event the Notes are (i) on the Rating Date (A) rated by two but not more Ratings Agencies and (B) rated Investment Grade by each such Rating Agency, and (ii) cease to be rated Investment Grade by both such Rating Agencies.

## **6. Payments**

- (a) *Principal*: Payments of principal shall be made by U.S. dollars cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment by transfer to a U.S. dollars account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

- (b) *Interest*: Payments of interest shall be made by U.S. dollars cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollars account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

*Notwithstanding the foregoing, so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollars account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollars cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in London, New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## **7. Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (the “**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer or the Guarantor as a result of the Issuer or the Guarantor being deemed by PRC tax authorities to be a PRC tax resident at the rate of up to (and including) 10 per cent. (the “**Applicable Rate**”), the Issuer or (as the case may be) the Guarantor will pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required.

In the event that the Issuer or (as the case may be) the Guarantor is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate; or (ii) by or within the British Virgin Islands or Hong Kong, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the “**Additional Amounts**”) as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

- (a) to a Holder (or to a third party on behalf of a Holder) who is liable to such Taxes in respect of such Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Note; or
- (b) which is surrendered (where required to be surrendered) more than 30 days after the Relevant Date, except to the extent that the Holder would have been entitled to such Additional Amounts on surrender of such Note for payment on the last day of such period of 30 days; or
- (c) to a Holder (or to a third party on behalf of a Holder) who would have been able to avoid such withholding or deduction by duly presenting the Note (where presentation is required) to another paying agent; or
- (d) with respect to any Taxes that would not have been imposed but for the failure of the Holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the Holder to provide certification or information concerning the nationality, residence or identity of the Holder or beneficial owner of the Note, if compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge; or
- (e) with respect to any withholding or deduction that is imposed or levied on a payment pursuant to European Council Directive 2003/48/EC or any other Directive amending, supplementing or replacing such Directive or any law implementing or complying with, or introduced in order to conform to, such Directives; or
- (f) with respect to any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge; or
- (g) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the US Internal Revenue Code and the U.S. Treasury regulations, thereunder (“**FATCA**”), any intergovernmental agreement between the United States and any other jurisdiction implementing, or relating to, FATCA or any law, regulation or guidance enacted or issued in any jurisdiction with respect thereto; or
- (h) with respect to any Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note or Guarantee of the Notes; or
- (i) with respect to any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (a) through (h) above.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands or Hong Kong or the PRC respectively, references in these Conditions to the British Virgin Islands or Hong Kong or the PRC shall (each, a “**Relevant Taxing Jurisdiction**”) be construed as references to the British Virgin Islands or (as the case may be) Hong Kong or (as the case may be) the PRC and/or such other jurisdiction.

## 8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified, provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) *Non-payment of principal*: failure to pay principal of, or premium on, if any, any Note after the date such amount is due and payable, upon optional redemption, acceleration or otherwise;
- (b) *Non-payment of interest*: failure to pay interest on any Note within 30 days after the due date for such payment;
- (c) *Breach of other obligations*:
  - (i) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described in Condition 3(e) (*Consolidation, Merger and Sale of Assets*); and
  - (ii) failure to perform any other covenant or agreement of the Company, the Guarantor or the Issuer under the Trust Deed, the Keepwell Deed or the Deed of Undertaking (other than those referred to paragraphs (a), (b) and (c)(i) above and (g) below or where it gives rise to a redemption pursuant to Condition 7(c) (*Redemption for Change of Control*)), and such failure continues for 60 days after there has been given, by registered or certified mail, to the Company, the Guarantor or the Issuer, as the case may be, by the Trustee or by the Holders of at least 25 per cent. in aggregate principal amount of the Notes then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied;
- (d) *Cross-acceleration*: (i) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness (as defined in Condition 3 (*Covenants*) above) of the Company, the Guarantor, the Issuer or any Principal Subsidiary, (ii) acceleration of the maturity of any Indebtedness of the Company, the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 days after receipt by the Trustee of the written notice from the Company, the Guarantor or the Issuer as provided in the Trust Deed, or (iii) failure to pay any amount payable by the Company, the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 days after receipt by the Trustee of written notice as provided in the Trust Deed; *provided, however*, that no such event set forth in clause (i), (ii) or (iii) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds 0.5 per cent. of the Total Assets of the Company (or its equivalent in any other currency);
- (e) *Guarantee not in force*: the Guarantee of the Notes ceases to be in full force or effect or the Guarantor denies or disaffirms its obligations under the Guarantee of the Notes;
- (f) *Unsatisfied judgment*: failure by the Company, the Guarantor, the Issuer or any Principal Subsidiary to pay one or more final judgments from a court of competent jurisdiction in the PRC, the British Virgin Islands, Hong Kong, or a member country of the Organisation for Economic Cooperation and Development, aggregating in excess of 0.5 per cent. of the Total Assets of the Company (or its equivalent in other currencies), which judgments are not paid, discharged or stayed for a period of 60 days, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (g) *Keepwell Deed and Deed of Undertaking*: the Keepwell Deed or the Deed of Undertaking is not (or is claimed by the Company to not be) in full force and effect or the Company is in breach of its obligations thereunder; or the Keepwell Deed or the Deed of Undertaking is modified, amended or terminated, other than strictly in accordance with their respective terms;

- (h) *Winding up, etc.:* (i) a decree or order is entered (A) for relief in respect of the Company, the Guarantor, the Issuer or any Principal Subsidiary in an involuntary case of winding-up or bankruptcy proceeding under applicable law or (B) adjudging the Company, the Guarantor, the Issuer or any Principal Subsidiary bankrupt or insolvent, or (ii) in connection with the bankruptcy or insolvency of the Company, the Guarantor, the Issuer or any Principal Subsidiary, a decree or order is entered seeking a reorganisation, a winding up, an arrangement, an adjustment or a composition, with creditors, of or in respect of the Company, the Guarantor, the Issuer or any Principal Subsidiary under applicable law, or (iii) a decree or order is entered appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company, the Guarantor, the Issuer or any Principal Subsidiary or of all or substantially all of their respective properties, or ordering the winding up or liquidation of any of their affairs, and in each case, any such decree or order remains unstayed and in effect for a period of 60 consecutive days; except in each case, for the purposes of and followed by a reconstruction, restructuring and rehabilitation, amalgamation, reorganisation, merger or consolidation of a Principal Subsidiary whereby the assets or undertakings of such Principal Subsidiary are vested in or otherwise transferred to the Company, the Guarantor, the Issuer or any Principal Subsidiary;
- (i) *Insolvency:* the Company, the Guarantor, the Issuer or any Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Company, the Guarantor, the Issuer or any Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Company, the Guarantor, the Issuer or any Principal Subsidiary or of all or substantially all of its respective property, or makes an assignment for the benefit of creditors, or takes corporate action in furtherance of any such action; except in each case, for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of a Principal Subsidiary whereby the assets or undertakings of such Principal Subsidiary are vested in or otherwise transferred to the Company, the Guarantor, the Issuer or any Principal Subsidiary;
- (j) *Security enforced:* (i) a distress, attachment, execution, any other legal process is levied, enforced or sued out on or against, or (ii) any mortgage, charge, pledge, lien or other encumbrance, present or future, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person), in each case with respect to, all or substantially all of the property, assets or revenues of the Company, the Guarantor, the Issuer or any of the Principal Subsidiaries, as the case may be, and is not discharged or stayed within 60 days;
- (k) *Failure to take action, etc.:* any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer, the Guarantor and the Company lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, the Trust Deed, the Keepwell Deed (other than with regard to the performance and compliance with the obligations thereunder) and the Deed of Undertaking (other than with regard to the performance and compliance with the obligations thereunder), (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed, the Keepwell Deed and the Deed of Undertaking admissible in evidence in the courts of England and Hong Kong (as the case may be) is not taken, fulfilled or done; and
- (l) *Unlawfulness:* it is or will become unlawful for any of the Company, the Guarantor and the Issuer to perform or comply with any one or more of their respective obligations under any of the Notes, the Trust Deed, the Keepwell Deed or the Deed of Undertaking;

In these Conditions:

“**Principal Subsidiary**” at any time shall mean a Subsidiary of the Company (other than a Listed Subsidiary):

- (a) as to which one or more of the following conditions is/are satisfied:
  - (i) its net profit or (in the case of a Subsidiary of the Company which has Subsidiaries) consolidated net profit attributable to the Company (in each case before taxation and exceptional items) is at least 10 per cent. of the consolidated net profit of the Company (before taxation and exceptional items); or



- (ii) its net assets or (in the case of a Subsidiary of the Company which has Subsidiaries) consolidated net assets attributable to the Company (in each case after deducting minority interests in Subsidiaries) are at least 10 per cent. of the consolidated net assets of the Company (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary of the Company and the then latest consolidated financial statements of the Company, *provided that*: (A) in the case of a Subsidiary of the Company acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary of the Company which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (C) if the accounts of a Subsidiary of the Company (not being a Subsidiary referred to in (A) above) are not consolidated with those of the Company then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Company requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the audited consolidated accounts of the Company and its Subsidiaries; or

- (b) to which is transferred all or substantially all of the assets of the Subsidiary of the Company which immediately prior to the transfer was a Principal Subsidiary, *provided that*, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (a) above).

A certificate of the auditors of the Company as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

“**Total Assets**” means the consolidated total assets of the Company and its subsidiaries calculated by reference to the then latest financial statements of the Company (which can be internal financial statements).

## **9. Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

## **10. Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

## **11. Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified, provided with security and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.



In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a principal paying agent and a registrar and (b) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

## 12. Meetings of Noteholders, Modification and Waiver

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Agency Agreement, the Keepwell Deed, the Deed of Undertaking or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee subject to its being first indemnified, provided with security and/or pre-funded to its satisfaction, upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 90 per cent. of the aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Agency Agreement, the Trust Deed, the Keepwell Deed or the Deed of Undertaking (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Agency Agreement, the Trust Deed, the Keepwell Deed or the Deed of Undertaking which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Agency Agreement, the Trust Deed, the Keepwell Deed or the Deed of Undertaking (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be binding on the Noteholders and unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) *Directions from Noteholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Agency Agreement, the Keepwell Deed or the Deed of Undertaking, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed, the Agency Agreement, the Keepwell Deed or the Deed of Undertaking to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified, provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

### **13. Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed, the Agency Agreement, the Keepwell Deed or the Deed of Undertaking in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified, or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

### **14. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed, *provided that* (a) the Rating Agencies which have provided credit ratings in respect of the Notes have been informed of such issue and such issue will not result in any adverse change in the then credit rating(s) of the Notes and (b) such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed.

### **15. Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

*Until such time as any definitive certificates are issued and so long as the Global Note Certificate is held in its entirety on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

### **16. Governing Law and Jurisdiction**

- (a) *Governing law*: The Notes, the Trust Deed, the Keepwell Deed and the Deed of Undertaking and any non-contractual obligations arising out of or in connection with the Notes, the Trust Deed, the Keepwell Deed and the Deed of Undertaking are governed by English law.

- (b) *Jurisdiction*: Each of the Issuer, the Guarantor and the Company has in the Trust Deed, the Keepwell Deed and the Deed of Undertaking (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Trust Deed, the Keepwell Deed, the Deed of Undertaking and the Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.
- (c) *Waiver of immunity*: To the extent that the Guarantor, the Issuer or the Company has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or, except as provided below, from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its property, the Guarantor, the Issuer or the Company each irrevocably waives, to the fullest extent permitted by applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Notes, the Trust Deed, Keepwell Deed or the Deed of Undertaking.

## **TERMS AND CONDITIONS OF THE 2019 NOTES**

*The terms and conditions of the 2019 Notes will be identical to those under the “Terms and Conditions of the 2017 Notes”, except as set out below. References to “Notes” shall be construed as references to the 2019 Notes.*

1. The principal amount of the Notes shall be U.S.\$1,200,000,000.
2. The Rate of Interest shall be 4.00 per cent. per annum. The amount of interest payable on each Interest Payment Date shall be U.S.\$4,000 in respect of each Note of U.S.\$200,000 denomination and U.S.\$20 in respect of each U.S.\$1,000 principal amount of the Notes.
3. The maturity date shall be 17 July 2019.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*Each Global Note Certificate contains provisions which apply to the Notes of the relevant series while they are in global form, some of which modify the effect of the Terms and Conditions of the relevant series set out in this Offering Circular. The following is a summary of certain of those provisions.*

Each series of Notes will be represented by a Global Note Certificate which will be registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Under each Global Note Certificate, the Issuer, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions of the relevant series in respect of the Notes of the relevant series represented by such Global Note Certificate to the Noteholders of the relevant series in such circumstances as the same may become payable in accordance with the Terms and Conditions of the relevant series.

Each Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever any Global Note Certificate is to be exchanged for Individual Note Certificates of the relevant series, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of such Global Note Certificate within five business days of the delivery, by or on behalf of the registered Noteholder of such Global Note Certificate, Euroclear and/or Clearstream, Luxembourg to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names such Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of such Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Noteholder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, each Global Note Certificate will contain provisions that modify the Terms and Conditions of the relevant series as they apply to the Notes of the relevant series evidenced by such Global Note Certificate. The following is a summary of certain of those provisions:

**Payment Record Date:** Each payment in respect of a Global Note Certificate will be made to the person shown as the Noteholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which such Global Note Certificate is being held is open for business.

**Exercise of put option:** In order to exercise the option contained in Condition 5(c) (*Redemption for Change of Control*) (the “**Put Option**”), the Noteholder must, within the period specified in the Terms and Conditions for the deposit of the relevant Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which the Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

**Notices:** Notwithstanding Condition 15 (*Notices*), so long as a Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Noteholders represented by such Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be approximately U.S.\$1,482 million after deducting the commission to be charged by the Joint Lead Managers and other expenses, and will be used by the Guarantor as working capital and for general corporate purposes.



## EXCHANGE RATE INFORMATION

### PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi with reference to a basket of currencies in the market during the prior day. The PBOC also takes into account other factors such as general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollar and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Center, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 AM each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollars from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollars by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 20 June 2010, the PBOC announced that it intended to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate and on 16 April 2012, the band was expanded to 1.0 per cent. The PBOC announced on 15 March 2014 that since 17 March 2014, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollars was further expanded from 1 per cent. to 2 per cent. On each business day, the spread between the Renminbi and U.S. dollars buying and selling prices offered by the designated foreign exchange banks to their clients shall be within 3 per cent. of the published central parity of U.S. dollars on that day, instead of 2 per cent. The PBOC may continue to promote the market-based Renminbi exchange rate regime, enhance the flexibility of the Renminbi exchange rate in both directions, and keep the Renminbi exchange rate basically stable at an adaptive equilibrium level.

The following table sets forth the noon buying rates for U.S. dollars in New York City for cable transfers payable in Renminbi as certified by the Federal Reserve Bank of New York for customs purposes for and as at the periods indicated as set forth in the H.10 statistical release of the Federal Reserve Board.

	Noon Buying Rate			
	Low	Average <sup>(1)</sup>	High	Period End
	(RMB per U.S.\$1.00)			
2009.....	6.8176	6.8295	6.8470	6.8259
2010.....	6.6000	6.7603	6.8330	6.6000
2011.....	6.2939	6.4475	6.6364	6.2939
2012.....	6.2221	6.2990	6.3879	6.2301
2013.....	6.0537	6.1478	6.2438	6.0537
2014				
January.....	6.0402	6.0509	6.0600	6.0590
February.....	6.0591	6.0816	6.1448	6.1448
March.....	6.1183	6.1729	6.2273	6.2164
April.....	6.1966	6.2246	6.2591	6.2591
May.....	6.2255	6.2380	6.2591	6.2471
June (up to 27 June).....	6.2090	6.2320	6.2548	6.2180

*Note:*

<sup>(1)</sup> Averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

On 27 June 2014, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was U.S.\$1.00 to RMB6.2180 as set forth in the H.10 statistical release of the Federal Reserve Board.

## HONG KONG

The Hong Kong dollar is freely convertible into the U.S. dollars. Since 1983, the Hong Kong dollar has been linked to the U.S. dollars. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong.

Although the market exchange rate of the Hong Kong dollar against the U.S. dollars was and continues to be determined by forces of supply and demand in the foreign exchange market, between 1983 and May 2005, Hong Kong maintained a fixed rate system which fixed the rate of exchange to HK\$7.80 per U.S. dollars (the “**Linked Exchange Rate System**”). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK\$7.80 per U.S. dollars to a new range varying between HK\$7.75 per U.S. dollars and HK\$7.85 per U.S. dollars. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollars. However no assurance can be given that the Hong Kong government will maintain the trading band at HK\$7.75 to HK\$7.85 per U.S. dollars or at all. As a result of the Linked Exchange Rate System, exchange rates between the Hong Kong dollar and other currencies are influenced by the value of the U.S. dollars.

The following tables sets forth, for periods indicated, certain information concerning the exchange rates between Hong Kong dollar and U.S. dollars. The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

	Noon Buying Rate			
	Low	Average <sup>(1)</sup>	High	Period End
	(HK\$ per U.S.\$1.00)			
2009.....	7.7536	7.7513	7.7618	7.7495
2010.....	7.7810	7.7692	7.8040	7.7506
2011.....	7.7663	7.7793	7.8087	7.7634
2012.....	7.7507	7.7557	7.7699	7.7493
2013.....	7.7539	7.7565	7.7652	7.7503
2014				
January.....	7.7642	7.7578	7.7663	7.7534
February.....	7.7608	7.7585	7.7645	7.7547
March.....	7.7567	7.7612	7.7669	7.7563
April.....	7.7517	7.7540	7.7568	7.7527
May.....	7.7514	7.7523	7.7535	7.7523
June (up to 27 June).....	7.7504	7.7517	7.7537	7.7517

*Note:*

<sup>(1)</sup> Averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

On 27 June 2014, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollar was U.S.\$1.00 to HK\$7.7517 as set forth in the H.10 statistical release of the Federal Reserve Board.

## CAPITALISATION AND INDEBTEDNESS

### CAPITALISATION AND INDEBTEDNESS OF THE COMPANY

The following table sets forth the consolidated capitalisation and indebtedness of the Company as at 31 December 2013 and as adjusted to give effect to the issue of the Notes before deducting the underwriting fees and commissions and other expenses payable in connection with this offering. The following table should be read in conjunction with the Group's Financial Statements and related notes included elsewhere in this Offering Circular.

	As at 31 December 2013			
	Actual		As adjusted for the issuance of the Notes	
	RMB	U.S.\$ <sup>(1)</sup>	RMB	U.S.\$ <sup>(1)</sup>
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
<b>Debt<sup>(2)</sup></b>				
Short-term borrowings .....	57,167,246	9,193,832	57,167,246	9,193,832
Borrowings from the Central Bank .....	52,300	8,411	52,300	8,411
Placements from banks and financial institutions .....	21,845,951	3,513,340	21,845,951	3,513,340
Bonds issuance .....	17,886,181	2,876,517	17,886,181	2,876,517
Long-term borrowings .....	78,963,897	12,699,244	78,963,897	12,699,244
2017 Notes offered .....	—	—	1,865,400	300,000
2019 Notes offered .....	—	—	7,461,600	1,200,000
<b>Total debt .....</b>	<b>175,915,575</b>	<b>28,291,344</b>	<b>185,242,575</b>	<b>29,791,344</b>
<b>Equity and reserves</b>				
Share capital .....	25,835,870	4,155,013	25,835,870	4,155,013
Capital reserves .....	1,207,091	194,128	1,207,091	194,128
Surplus reserves .....	1,000,912	160,970	1,000,912	160,970
General reserves .....	1,546,510	248,715	1,546,510	248,715
Retained earnings .....	12,377,489	1,990,590	12,377,489	1,990,590
Exchange difference from foreign currency translation .....	(1,286)	(207)	(1,286)	(207)
Total shareholders' equity attributable to parent company .....	41,966,586	6,749,209	41,966,586	6,749,209
Minority interests .....	10,567,569	1,699,513	10,567,569	1,699,513
<b>Total shareholders' equity .....</b>	<b>52,534,155</b>	<b>8,448,722</b>	<b>52,534,155</b>	<b>8,448,722</b>
<b>Total capitalisation<sup>(3)</sup> .....</b>	<b>228,449,730</b>	<b>36,740,066</b>	<b>237,776,730</b>	<b>38,240,066</b>

*Notes:*

- (1) Calculated at the exchange rate of U.S.\$1.00 = RMB6.2180 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.
- (2) From 31 December 2013 to 31 May 2014, the Group has incurred a material amount of borrowings and other liabilities to finance its business expansion and other general corporate purposes. As at 31 May 2014, the Group's debt (comprising short-term borrowings, borrowings from the Central Bank, placement from banks and financial institutions, bonds issuance and long-term borrowings) increased by approximately 20 per cent. as compared to 31 December 2013.
- (3) Total capitalisation equals the sum of total debt and total shareholders' equity.

Except as otherwise disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Company since 31 December 2013.

## CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets forth the consolidated capitalisation and indebtedness of the Guarantor as at 31 December 2013 and as adjusted to give effect to the issue of the Notes before deducting the underwriting fees and commissions and other expenses payable in connection with this offering. The following table should be read in conjunction with the Guarantor's Financial Statements and related notes included elsewhere in this Offering Circular.

	As at 31 December 2013			
	Actual		As adjusted for the issuance of the Notes	
	HK\$	U.S.\$ <sup>(1)</sup>	HK\$	U.S.\$ <sup>(1)</sup>
<b>Current debt:</b> <sup>(2)</sup>				
Bank borrowings .....	1,380,750,000	178,122,218	1,380,750,000	178,122,218
<b>Total current debt</b> .....	<b>1,380,750,000</b>	<b>178,122,218</b>	<b>1,380,750,000</b>	<b>178,122,218</b>
<b>Non-current debt:</b> <sup>(2)</sup>				
Amounts due to ultimate holding company .....	1,808,185	233,263	1,808,185	233,263
Amounts due to immediate holding company .....	348,135	44,911	348,135	44,911
Amounts due to a fellow subsidiary .....	998,061	128,754	998,061	128,754
2017 Notes offered .....	—	—	2,325,510,000	300,000,000
2019 Notes offered .....	—	—	9,302,040,000	1,200,000,000
<b>Total non-current debt</b> .....	<b>3,154,381</b>	<b>406,928</b>	<b>11,630,704,381</b>	<b>1,500,406,928</b>
<b>Total debt</b> .....	<b>1,383,904,381</b>	<b>178,529,146</b>	<b>13,011,454,381</b>	<b>1,678,529,146</b>
<b>Equity and reserves</b>				
Share capital .....	50,000,000	6,450,198	50,000,000	6,450,198
Retained profit .....	39,441,651	5,088,129	39,441,651	5,088,129
Exchange reserves .....	83,605	10,785	83,605	10,785
<b>Total equity</b> .....	<b>89,525,256</b>	<b>11,549,113</b>	<b>89,525,256</b>	<b>11,549,113</b>
<b>Total capitalisation</b> <sup>(3)</sup> .....	<b>1,473,429,637</b>	<b>190,078,259</b>	<b>13,100,979,637</b>	<b>1,690,078,259</b>

### Notes:

- (1) Calculated at the exchange rate of U.S.\$1.00 = HK\$7.7517 on 27 June 2014 as set forth in the H.10 statistical release of the Federal Reserve Board.
- (2) From 31 December 2013 to 31 May 2014, the Guarantor has incurred a material amount of bank borrowings and other liabilities to finance its business expansion and other general corporate purposes.
- (3) Total capitalisation equals the sum of total debt and total equity.

Except as otherwise disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31 December 2013.

## HISTORY AND ORGANISATION OF THE GROUP

### HISTORY OF THE GROUP

The Company's predecessor company, Huarong Corporation, was incorporated with the approval of the State Council in 1999 as a wholly state-owned non-bank financial institution, with a registered capital of RMB10 billion contributed solely by the MOF. Huarong Corporation was one of four state-owned AMCs established for the purpose of mitigating the impact of the financial crisis in Asia on the PRC at that time, in particular through the key objectives of safeguarding state-owned assets, preventing and eliminating risks to the PRC financial system, promoting the reform of SOEs, and facilitating the reform and development of state-owned banks and SOEs.

Huarong Corporation's major role at the time was to acquire and dispose of the NPAs that ICBC was disposing as part of its initial public offering process. In 1999, Huarong Corporation acquired RMB407.7 billion of distressed assets from ICBC at book value. In 2005, prior to ICBC's initial public offering, the Group was entrusted by the MOF to dispose RMB246 billion of NPLs divested from ICBC, as well as other distressed assets divested from ICBC through competitive bidding. As at the end of 2006, the Group had met the policy business targets set by the MOF.

In addition to its policy role of acquiring and disposing of NPLs of SOEs, in 2006 Huarong Corporation began to explore the commercialisation of its business. In 2008, in accordance with applicable regulations, Huarong Corporation established separate financial accounts for its policy-oriented business and commercial business in order to manage them independently of each other.

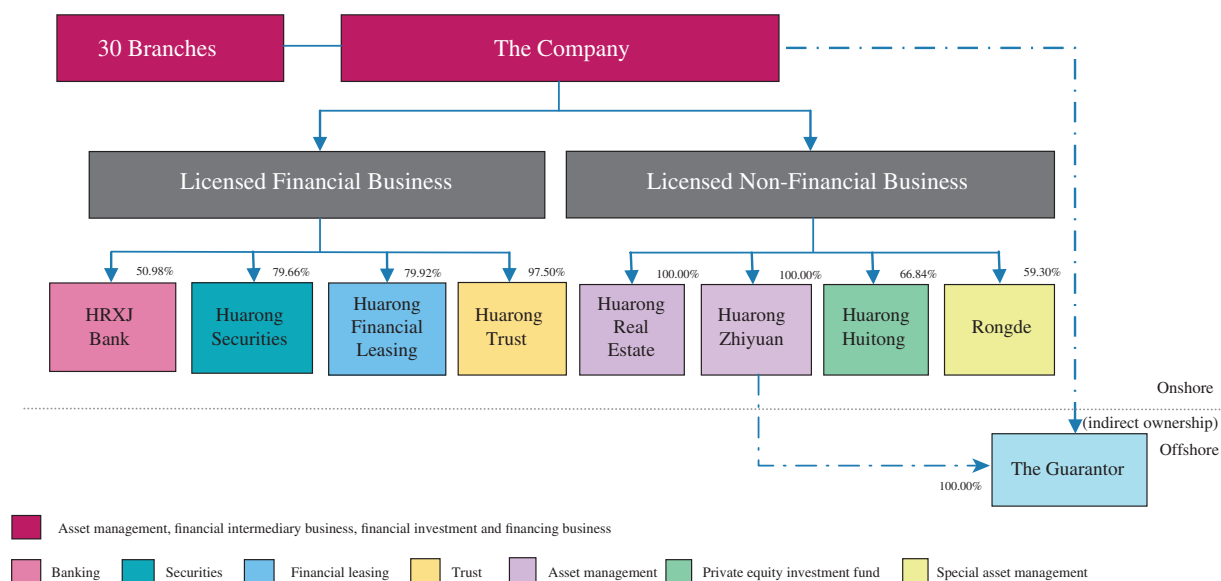
In September 2012, with the approval of the State Council, Huarong Corporation was restructured, established as a joint-stock company and renamed "China Huarong Asset Management Co., Ltd." to become the Company. China Life contributed RMB500 million and acquired a 1.94 per cent. equity stake in the Company as a strategic investor, with the MOF holding the remaining stake as the largest shareholder. Through this restructuring, the Company became the second state-owned AMC after China Cinda Asset Management Co., Ltd. to complete its restructuring into a joint-stock company.

As part of the joint-stock restructuring, certain bonds in the aggregate principal amount of RMB313 billion issued by Huarong Corporation to ICBC were removed from the balance sheet of Huarong Corporation. The MOF established a jointly-managed fund to manage the repayment of the principal of the removed bonds. Any portion of the bonds not repaid by the jointly-managed fund would be resolved by the MOF. The Company acquired the remaining assets from Huarong Corporation's policy-oriented NPA business, which comprised policy-oriented liabilities and DES assets. Such acquisition was financed by interest-free loans provided by the MOF, with a five-year maturity. The loans must be repaid in equal instalments over five years and any amount of loans left outstanding beyond maturity will incur interest of 2.25 per cent. per annum. As a measure of the joint-stock restructuring, the obligation to pay all principal and interest of policy-based re-financings granted to Huarong Corporation by the PBOC in excess of the agreed consideration for the NPAs acquired as part of the restructuring was waived.



## ORGANISATION OF THE GROUP

The following chart sets forth a simplified corporate and shareholding structure of the Group and the Company's interests in its principal subsidiaries and joint ventures as at the date of this Offering Circular.



## **DESCRIPTION OF THE ISSUER**

### **OVERVIEW**

The Issuer was incorporated as a company with limited liability on 19 May 2014 under the laws of the British Virgin Islands. The registered office of the Issuer is at c/o Maples Corporate Services (BVI) Limited, Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands.

### **SHARE CAPITAL**

As at the date of this Offering Circular, the Issuer is authorised to issue a maximum of 50,000 shares of one class of no par value and one share has been issued to the Guarantor and credited as fully paid. None of the equity securities of the Issuer are listed or dealt in any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought as at the date of this Offering Circular.

### **BUSINESS ACTIVITIES**

The Issuer is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not engaged in any activities other than those in relation to the proposed issue of the Notes and the on-lending of the proceeds thereof to the Guarantor and its subsidiaries, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party.

### **DIRECTORS**

The directors of the Issuer at the date of this Offering Circular are Mr Liu Qin and Ms Gan Fen. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

### **FINANCIAL INFORMATION**

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep such records that are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

## DESCRIPTION OF THE GUARANTOR

### OVERVIEW

The Guarantor is a wholly-owned subsidiary of the Company. The Guarantor was incorporated in Hong Kong on 2 January 2013. In late May 2014, the Guarantor received HK\$372.95 million through indirect capital injection by the Company, with a proposed new issue of 370 million shares, and the filing and other formalities in relation to the capital injection are currently being carried out. As at the date of this Offering Circular, the Guarantor has an issued share capital of HK\$50 million comprising 50 million shares in issue. The Guarantor's registered address is at Unit 1504-1506, 15F, Office Tower Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

The Guarantor is the primary offshore holding platform and investment and financing platform of the Group and plays a key role in the internationalisation process of the Group through leveraging on the projects, clientele and branding of the Company to effect synergies, broaden collaboration and improve the operational mechanism.

The Guarantor is licensed as a money lender in accordance with the Money Lenders Ordinance (Cap. 163) of Hong Kong. The Guarantor will, from time to time, consider opportunities to make strategic investments or acquire other entities that cover businesses requiring licences in Hong Kong that are complimentary to the Guarantor's business scope. In particular, the Guarantor is evaluating the acquisition of an interest in an entity that is licensed to engaged in asset management, financing, securities and financial advisory services.

### BUSINESS ACTIVITIES

Currently, the main businesses of the Guarantor are:

- Fixed income investments — the Guarantor makes fixed income investments in diversified industries, such as pharmaceutical manufacturing, small loan services and machinery leasing sectors;
- Equity investments — the Guarantor considers investment opportunities such as pre-initial public offering investments; and
- Mezzanine investments — the Guarantor makes investments in structured products which have characteristics of both debt and equity.

The Guarantor may in the future also provide investment management business, investment banking business and asset management business, to broaden its current business scopes and measures.

In respect of its investment management business, the Guarantor may provide services, including:

- distressed asset acquisition, management and disposal;
- direct equity investment, including private equity investment, convertible debt investment, private investment in public entities and fixed income investment and financing; and
- investment in stocks, bonds, options and funds in primary and secondary markets.

In respect of its investment banking business, the Guarantor may advise on fund raising, corporate restructuring, and mergers and acquisitions and provide stock brokerage services.

In respect of its asset management business, the Guarantor may manage funds and assets of third parties and receive management and performance fees from services provided.

## **DIRECTORS**

All directors of the Guarantor were appointed by the Company. As at the date of this Offering Circular, the directors of the Guarantor are: Mr Zhou Huorong, Mr Yang Guobing, Mr Wang Xiaobo, Mr Liu Qin, Mr Lei Zhiwei, Mr Lai Ruihua and Mr Hu Jiang.

## **FINANCIAL INFORMATION**

For details of the Guarantor's financial information, see "*Summary Financial Information of the Guarantor*" and the Guarantor's Financial Statements included elsewhere in this Offering Circular.

## DESCRIPTION OF THE GROUP

### OVERVIEW

The Company is a leading AMC and one of the Four AMCs, which are the four largest state-owned AMCs in the PRC. As at 31 December 2013, the Group ranked first among the Four AMCs in terms of net profit and total assets owned on a consolidated basis.

The principal businesses of the Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

- **Distressed asset management** — Distressed asset management is the Group's core business. The Group's distressed asset management operations involve the acquisition, disposal, management and investment of NPAs stripped from financial institutions and other enterprises in the PRC through public bidding or private contractual arrangements. The principal areas of operations of the Group's asset management business are distressed asset disposals, restructuring and DES.
- **Financial intermediary services** — Financial intermediary services mainly include entrusted distressed asset management, custody and liquidation and advisory services. The Group also provides consultancy services.
- **Principal investments** — The Group focuses on equity investments and fixed income investments. The Group generates revenue from its equity investments primarily through capital gains when it exits through an initial public offering or share sale by its portfolio company. For its fixed income investments, the Group invests its capital in financial products, which in turn is invested in target enterprises, and collects principal and yield upon maturity.
- **Banking** — The Group conducts its banking business through the Company's subsidiary, HRXJ Bank. HRXJ Bank's principal businesses include corporate banking, retail banking and SME financing.
- **Financial leasing** — The Group conducts its financial leasing business through the Company's subsidiary, Huarong Financial Leasing. Services offered by Huarong Financial Leasing include direct leasing, leaseback financing, operating leasing, hedging leasing, custodian leasing, transfer leasing and combined leasing.
- **Securities** — The Group conducts a securities business through its subsidiary, Huarong Securities. Huarong Securities engages in securities services such as domestic equity underwriting, domestic equity trading, foreign exchange trading, securities proprietary trading, warrant trading, margin financing, share pledge repurchasing and entrusted insurance funding.
- **Trust** — The Group engages in a trust business through Huarong Trust, which was established in 2008 and was one of the earliest trust companies to be established in the PRC. Huarong Trust has offered trust products such as trust loans, equity investment trust products, investment trust products, infrastructure and energy trust, real estate trust and securitisation in a wide range of industries, including, infrastructure and facilities, coal, non-ferrous metals, modern manufacturing, securities, equities, real estate, modern services, strategic new industries and cultural industries.
- **Special asset management** — The Group, through its joint venture, Rongde, conducts special assets investment by way of private equity investments, mezzanine investments and fixed income investments. In addition to investing with its own capital, Rongde also provides fund management services for private equity funds and mezzanine funds.

The Company has extensive presence across 30 provinces, autonomous regions and municipalities in the PRC, with 30 branches in the PRC. As at 31 December 2013, the Group employed approximately 8,400 employees, of which 1.2 per cent. have obtained a qualification of doctoral degree or above, 17.1 per cent. have obtained a master's degree and 53.9 per cent. have obtained a bachelor's degree. As at 31 December 2013, employees with junior-level professional qualifications approximately accounted for 31.7 per cent. of the total number of employees, employees with mid-level professional qualifications approximately accounted for 53.4 per cent. and employees with senior-level professional qualifications approximately accounted for the remaining 14.9 per cent.

For the years ended 31 December 2012 and 2013, the Group's total operating income was approximately RMB19,653 million and RMB29,283 million, respectively, and the Group's net profit for the corresponding years was approximately RMB6,987 million and RMB10,093 million, respectively. As at 31 December 2012 and 2013, the Group had total assets of approximately RMB315,034 million and RMB408,661 million, respectively.

As at the date of this Offering Circular, the MOF and China Life hold 98.06 per cent. and 1.94 per cent. of the equity interest in the Company, respectively, and the registered capital of the Company was RMB25,836 million.

## **COMPETITIVE STRENGTHS**

The Group believes that its key strengths include:

### **Leading position with first-mover advantage in the state-supported AMC market**

The Group comprises the largest, in terms of asset base, of the Four AMCs that were established in 1999 with the approval of the State Council. As the first financial AMCs established in the PRC, the Four AMCs have a significant first-mover advantage in terms of experience, professional talent, distribution and service network and capital strength. As a result, the Four AMCs are and will be major participants in the PRC's distressed asset management industry for the foreseeable future. The Group had total assets of RMB408,661 million as at 31 December 2013, which was the largest among the assets held by any one of the Four AMCs as at such date.

The Group's leading position in the PRC AMC market is further demonstrated by the following:

- the Group achieved net profit of RMB10,093 million and its return-on-average-equity amounted to 22.8 per cent. for the year ended 31 December 2013, which ranked among the top of the industry;
- the Group has strong relationships with provincial and municipal governments and has signed the most strategic cooperation agreements with such governments among the AMCs in the PRC;
- the Group has strong support from the PRC government and was approved to set up HRXJ Bank by participating in the restructuring led by the PRC government, becoming the only AMC in the PRC with a controlling interest in a bank;
- the Group was the first to pass the ISO 9000 Quality Management System Certification among the AMCs in the PRC; and
- the Group was the first to establish a post-doctoral workstation among the AMCs in the PRC.

The structural transformation and development of the PRC's economy will provide significant opportunities for the distressed asset management industry, including an increasing supply of distressed assets and more mergers and acquisitions and restructuring business opportunities focused on distress entities across different industries. With the largest asset base among the Four AMCs, the Group has significant potential relative to the other AMCs to convert NPLs and other distressed assets into profit-generating assets.

### **Unique position in the PRC's economy with a strong shareholder base and support from the PRC government**

Huarong Corporation was incorporated with the approval of the State Council in 1999 as a wholly state-owned non-bank financial institution, with the registered capital of RMB10 billion contributed solely by the MOF. Huarong Corporation was one of four state-owned AMCs established for the purpose of mitigating the impact of the financial crisis in Asia on the PRC at that time, particularly through the key objectives of safeguarding state-owned assets, preventing and eliminating risks to the PRC's financial system, promoting the reform of SOEs, and facilitating the reform and development of state-owned banks and SOEs. The Company is a state-owned non-bank financial institution and has the licenses to carry out businesses of acquiring and disposing of NPAs in PRC. The Company became 98.06 per cent. owned by the MOF, with the remaining 1.94 per cent. owned by China Life, after its restructuring and continues to benefit from strong support from the



PRC government. This strong and unique shareholder base provides important support for strengthening the relationship with the PRC government, reinforcing customers' confidence, developing and expanding the Group's business and diversifying its funding sources. As at 31 May 2014, the Group had over RMB330 billion of credit facilities from 48 commercial banks.

As one of the four state-supported AMCs, the Group benefits from the PRC government's mandate, expressed most recently in the 2012 Administrative Measures on the Batch Transfer of Distressed Assets of Financial Enterprises (Caijin [2012] No.6), that effectively limits batch transfers of distressed assets and their disposal through sale or across provinces to the Four AMCs or the registered local provincial AMCs. However, the Four AMCs have an advantage over such local provincial AMCs, as the above mandate restricts the provincial AMCs' involvement in batch transfer in certain important respects. For example, only one provincial AMC can be set up or authorised to perform such kind of business. Also, provincial AMCs can only participate in batch transfer of the distressed assets within the specific province and the distressed assets purchased by provincial AMCs can only be disposed through debt restructuring and cannot be further sold, which further reinforces the unique license advantage of the Four AMCs.

### **Extensive institutional experience, capabilities and innovation in managing distressed assets**

With its wealth of institutional experience and leading capabilities in managing distressed assets, the Group is well-positioned to identify and realise new opportunities in the PRC's fast-growing and rapidly changing economy and is able to accurately evaluate and enhance the value of distressed assets, utilise diversified asset disposal plans and maximise the return from the distressed asset management business. The Group's business innovation has also driven its continuous growth. The Group was the first AMC in the PRC to:

- participate in the administration of troubled financial institutions;
- promote a public system of asset disposal;
- hold an auction sale of distressed assets on the internet;
- hold an international auction of distressed assets;
- participate in a DES initial public offering as a major underwriter;
- launch layered trust management projects (quasi-asset securitisation); and
- extensively carry out mergers and acquisitions and restructuring transactions involving distressed assets.

### **Large base of high-quality DES assets and extensive equity investment experience allowing for comprehensive and objective valuation of DES assets**

The Group has acquired a large base of DES assets which entail low risk with significant upside potential through equity appreciation. Most of the Group's DES assets are from SOEs in strategic sectors such as iron and steel, textiles and electronics. Due to their strategic importance, the underlying businesses on these assets are likely to continue to receive the PRC government's support and the risk of such assets experiencing business failure is low. As a result, from a financial perspective, the risk that the assets will diminish in value is low, and, on the contrary, these DES assets can experience significant appreciation in equity value.

The Group's extensive equity investment experience allows it to comprehensively and objectively value DES assets. The Group implements asset pricing and acquisition pricing in accordance with the information obtained from its due diligence process, sufficiently taking into consideration the status of the DES assets to be acquired and the corresponding collateral to be obtained, such as the existence of other claims that may be preferential to collateral rights, characteristics of the collateralised land and potential defects in the ownership. The Group conducts its valuation of DES assets by referencing the static value of targeted DES assets and promoting the dynamic value of such assets through a combination of asset consolidation, management and operation.

## **Comprehensive and collaborative financial services platform with broad customer network**

Since its original establishment as a distressed asset management business, the Group has expanded into commercial asset management and related financial services, including investment and financial support, proprietary equity investments, strategic planning and management consulting, and financial underwriting. Through its subsidiaries, it offers commercial banking, securities brokerage, financial leasing, trust and other special investment services. The Group also emphasises coordination and cooperation across its business lines to provide tailor-made financial solutions and realise synergies with customers, products and marketing. Further, the Group has a broad customer network, with 30 branches covering most regions of the PRC, and extensive customer relationships at the central, provincial and local government levels. The Group's customers include large SOEs and large financial institutions. By offering a comprehensive range of financial services and products to a broad customer network across the PRC, the Group believes it is well-positioned to capture and service customer loyalties across their developmental cycle, and mitigate over-reliance on particular economic sectors and negative or positive economic cycles. As at 31 December 2013, the Group has signed 279 strategic cooperation agreements with various entities, including 48 government entities (22 of them are of provincial level), 100 financial institutions and 131 enterprises.

## **Leading risk management capabilities and a comprehensive and effective risk management system**

The Group has established strict due diligence processes to accept and price assets. It was the first AMC in the PRC to designate a Chief Risk Officer position and establish a vertical risk management system promoting the independence and professionalism of such personnel. The Group emphasises the primary responsibility of the "Key Personnel" and implements risk control policies throughout the Group. The Group has also established "Three Defence Lines", which controls risks by evaluating, monitoring and managing risks at different stages of a project. After its restructuring, the Group has started to establish an information system of consolidated supervision to fulfil the risk management requirements of the CBRC. Also, the Group has established a system of authorising senior management of each branch and subsidiary to manage risks based on the business development needs as well as the risk tolerance and the risk management capabilities of such branches and subsidiaries. The Group regularly reviews and assesses its subsidiaries' risk management performance and encourages them to continuously enhance their risk management capabilities.

The Group is also one of the first AMCs in the PRC to implement procedures to manage business quotas, capital structure and performance assessments, implement a risk director system, and apply customer risk quota management techniques. The Group has an independent and professional risk control system that encompasses its entire business process, including capital, liquidity and risk management. While growing its asset management business, the Group maintains a high asset recovery ratio by strictly implementing project instalment and cash collection control.

## **Experienced senior management and highly trained employees and professional staff**

The Senior Management Team has extensive experience in the asset management and financial services industry, with an average of over 20 years of relevant financial management experience. In particular, the Group's chairman, Mr Lai Xiaomin, has over 25 years of banking industry experience and has held a number of senior management positions at the PBOC and the CBRC prior to joining the Group. The Group's President, Mr Ke Kasheng, also has extensive experience in the financial regulatory sector and has previously served in positions at the PBOC and the CBRC. Mr Lai and Mr Ke are very familiar with the PRC's macro-economy, monetary policies and financial regulatory system and have extensive experience in the financial regulatory sector and business management.

Most of the Senior Management Team have served as officials at the PBOC, the CBRC and/or other governmental authorities or as senior management at major state-owned commercial banks. As an institution, the Group has over 15 years of experience of valuing, acquiring, restructuring, managing and disposing of distressed assets in the PRC. The Group's employees are highly educated, well-trained and have extensive execution experience and leading technical skills necessary to accurately value assets, identify risks and maximise gains. The Group's professional staff is highly educated and trained, with 53.9 per cent. of staff holding university bachelor's degrees, and an additional 18.3 per cent. holding postgraduate degrees. Many of the Group's professional staff possess over 50 types of qualifications, including Senior Risk Management Specialist, Certified Internal Auditor, Project Management Professional Certification, Real Estate Appraiser, Sponsor Representative and Financial Risk Management Specialist.

## **Steady financial performance and sustainable and prudent business practices**

The Group has delivered strong financial performance and maximised enterprise value in recent years. The Group's operating income increased by 49.0 per cent. from RMB19,653 million in 2012 to RMB29,283 million in 2013, and its net profit increased by 44.5 per cent. from RMB6,987 million in 2012 to RMB10,093 million in 2013. The Group's total assets increased by 29.7 per cent. from RMB315,034 million as at 31 December 2012 to RMB408,661 million as at 31 December 2013. At the same time, the Group has maintained financially sustainable and prudent policies. The Group has pursued a policy of lengthening the maturity profile of its debt, and has decreased its ratio of short-term debt from 58.2 per cent. in 2012 to 44.1 per cent. in 2013. The Group has also continued to pursue a policy of diversifying its sources of funding. The Group's primary sources of funding include loans from commercial banks, shareholders' equity, issuance of financial bonds and payables to the MOF. As at 31 December 2012 and 31 December 2013, the capital adequacy ratio of the Company was 14.07 per cent. and 13.45 per cent. respectively, both exceeding the regulatory threshold of 12.5 per cent..

## **STRATEGIES**

The Group's goal is to continue to be a first-tier AMC while continuing its transformation into a market-oriented, diversified, integrated and international modern financial enterprise. It plans to achieve this goal by pursuing the following strategic initiatives:

### **Continue transition to modern corporate governance and stakeholder structure**

The Company was formed in 2012 as a restructuring of the original Huarong Corporation as a joint-stock company. Its current shareholding is almost all held by the MOF. The MOF controls the Group through the shareholders' meeting and the Board, and the Board is responsible for hiring the members of the Senior Management Team. The CBRC reviews the qualifications of the Senior Management Team and approves their appointment, reflecting the Company's origins as Huarong Corporation, which was formed to acquire NPLs from SOEs. Although this management and ownership structure has been a key factor in the Group's success to date, the Company plans to introduce outside equity investment, first through private strategic stakes, and eventually through an initial public offering of shares. This will be consistent with recent the PRC government pronouncements, and will also create a more modern, diversified capital structure, improve the Company's capital ratios and impose a public disclosure regime which will create enhanced opportunities for diversified capital raising.

### **Strengthen its distressed asset management business and enhance investment business profitability**

The Group will seize the chances brought about by the transition and expansion of the PRC's economic structure and participate in the PRC's easing of production capacity surplus, adjustment of industry structure and transformation and upgrade of economic structure. The Group seeks to grow its business and improve profitability by enhancing its business structure, developing innovative ways to conduct business and exploring business opportunities. The Group plans to continue to strengthen its distressed asset management business as its core business by further increasing the size of its business and improving its management capability and profitability. The Group will seek to discover more innovative equity asset investment methods, explore reinvestment of derivative products of equity assets and develop its equity assets into more sustainable business resources, further improving the Group's operational efficiency and competitiveness. The Group reserves assets with potential for appreciation, extends its business network and forms strategic resources for its steady and sustainable development. The Group will aim to strengthen its profitability, optimise its business structure, improve its business models, explore investment opportunities and enhance its core businesses.

### **Continue the transition to provide an integrated financial services platform**

The Group plans to continue to grow its core distressed asset management business while transitioning into an integrated financial service provider that offers diversified services, such as commercial banking, financial leasing, trust and wealth management, investment banking and securities brokerage and special asset management businesses, and comprehensively attends every need of its customers in a business cycle, specifically targeting the high net worth institutions and private clients.

## **Continue to strengthen comprehensive risk management system with modern management process**

The Group's management believes that in order to grow its business as the PRC's economy continues to become more market-oriented but more subject to economic volatility and cycles, it will be even more critical to have a robust and comprehensive risk management system. The Group was the first of the Four AMCs to establish a risk management system and a Chief Risk Officer position, and earned an ISO 9000 Quality Management System Certification in 2005. The Group intends to continue to optimise its vertical risk management system and promote greater independence and professionalism in its business and risk management procedures.

## **Build strong management team and highly trained and motivated work force**

A key part of the Group's future success will be in continuing to build a strong management team and in training and motivating its work force. The Senior Management Team already has extensive experience in the asset management and financial services industry, with an average of over 20 years of relevant financial management experience, and have served as officials at the PBOC, the CBRC and/or other governmental authorities or as senior management at major state-owned commercial banks. Also, the Group aims to continue to recruit and retain highly trained and motivated employees and professional staff. From 2009 to 2013, the Group implemented 1,465 local and overseas trainings on asset management, risk management, wealth management, financial product development, financial audit and laws and regulations, and over 30 per cent. of the Group's employees taking part in special overseas training programs. In accordance with the relevant PRC laws and regulations, the Group contributes to social welfare insurance for its full-time employees in the PRC, including basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. The Group plans to continue investing in the training and improvement of its workforce to create a modern, highly trained and motivated employee base to drive its increasingly sophisticated financial business.

## **BUSINESS OF THE GROUP**

The principal businesses of the Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

### **Distressed Asset Management Business**

Distressed asset management is the Group's core business. The Group's distressed asset management operations involve the acquisition, disposal, management and investment of NPAs stripped from financial institutions and other enterprises in the PRC through public bidding or private contractual arrangements. The principal areas of operations of the Group's asset management business are distressed asset disposals, restructuring and DES.

#### ***Distressed Asset Disposal***

Historically, the Group's primary source of NPAs was NPLs and other distressed debt assets from commercial banks, including the five state-owned commercial banks, joint-stock commercial banks, city commercial banks and rural credit associations. Gradually, the sources of distressed assets for the Group became more diverse as non-bank financial institutions such as trust companies increasingly played a greater role in financing activities in the PRC. Most recently in 2013, the Group also began to acquire NPAs from non-financial enterprises, such as accounts receivable and other receivables owned by non-financial enterprises and generated in the course of their production and operating activities, borrowing, lending and investment activities. The Group acquires the stripped NPAs through commercial means on market terms. By managing the NPAs, the Group seeks to realise value appreciation of the assets and maximise cash recovery.

The Group's NPAs include distressed debt, equity and real assets. The primary goals of the Group in its management of NPAs are to enhance asset value, prevent loss of value and to maximise cash recovery. The disposal method chosen by the Group is determined based on the Group's analysis of the characteristics of the assets and its assessment of the potential of the relevant assets for future appreciation.

- *Swift disposal* — For assets with low potential for future appreciation, the following methods may be used to dispose of the assets:
  - Direct sales — the Group will sell the acquired assets directly without any packaging;

- Packaged sales — the Group will dispose of these types of assets through packaged sales via auctions, competitive bidding and negotiated purchases; or
- Discount settlement — the Group will settle the debt with the debtors at a discount, where the debtors shall repay the debt in a lump sum or by instalments.
- *General disposal* — For assets with greater potential for future appreciation, the Group will dispose of them using a combination of the below methods:
  - Debt collection and recovery through making claims during legal or bankruptcy proceedings — the Group will collect debt in a timely manner and take appropriate measures prior to the expiration of statutory periods;
  - Debt payment in real assets — the Group will receive real assets of the debtor in satisfaction of debt;
  - DES — the Group will swap distressed debt of debtor companies with equity interest in those companies and provide them with additional investment and support to realise gain from value appreciation of such companies;
  - Debt restructuring — the Group will use various methods to restructure debt, including debt novation, debt consolidation, debt transfer and receipt of equity in satisfaction of debt;
  - Bankruptcy and liquidation — the Group will seek to realise assets through bankruptcy and liquidation; or
  - Divesture and sale — the Group will seek to recover debt through sale of the debtor's assets in accordance with its category, such as by geographic location or industry.
- *Specialised disposal* — For assets with significant potential for future appreciation, the following methods may be used:
  - Operational restructuring — the Group will assist the debtor company in optimising its business lines for debt or equity value enhancement. The Group will inject additional investments if these can improve the asset value or provide cash flow;
  - Asset restructuring — the Group will seek to convert the distressed debts into equity or to inject additional equity capital into the debtor company to increase potential for value appreciation as well as to facilitate disposal by the Group by means of exit in the equity capital market; or
  - Capital management — the Group will seek to enhance the equity value and liquidity of the debtor companies by actively promoting the reorganisation and initial public listing of the company and through means such as securitisation.

For the years ended 31 December 2012 and 2013, the Group achieved revenue of RMB354 million and RMB893 million, respectively, from its distressed debts designated as at fair value under the asset management business.

### ***Restructuring***

As a key part of its NPA business, the Group also seeks to restructure NPAs with the aim of achieving a profitable return. In restructuring NPAs, the Group targets enterprises that have development potential or have sufficient assets but which, due to cash flow or other issues, have resulted in a default of their bank loans. The Group acquires distressed debts from creditors and at the same time enters into restructuring arrangements with the debtors with the goal of maximising return.

Depending on the Group's analysis of the characteristics of the assets, the quality of collaterals, the operating conditions and business prospects of the debtor, the Group will typically employ one of the three key restructuring methods below.



### *Debt restructuring*

Debt restructuring refers to the customised restructuring solutions for debtors that are confronted with short-term liquidity straits but possess significant potential for future repayment with strong credit improvement projects. The Group will enter into restructuring agreements with debtor companies on such terms as to ensure debts can be repaid. These restructuring agreements set out details of the repayment amount, repayment method, repayment schedule and any collateral and guarantee arrangements with debtor companies and related parties. The restructuring may involve:

- amending the credit relationship by introducing additional creditors and transferring portions of the debt to such new entrants, changing creditors, introducing new investors or third parties who are able to repay debts;
- restructuring the original loan agreements to revise the terms as agreed with the debtors;
- arranging additional collateral and guarantee;
- devising a reasonable and practicable repayment schedule;
- closely monitoring debtor companies, such as by supervising an escrow account; and
- setting financial leverage ratios for default to increase costs of default.

### *Asset integration*

Asset integration refers to customised restructuring solutions for debtors that own valuable core assets but may who have poor operating conditions. Such solutions seek to improve the debtor company's short-term liquidity and enhance the value of their assets with measures such as the making of additional investments by the Group and/or the involvement of the Group in the debtor company's operations, thereby enhancing the return value of the NPAs.

Asset integration focuses on the restructuring of core assets such as real estate and mines, where the owner usually faces large liquidity risk. The Group or third party investors need to inject additional investments which can be recovered after the liquidation of core assets to revitalise the value of assets.

The Group seeks to improve the cash flow and operating conditions of such debtor company, control potential credit risks in their supply chain and restructure their existing debt without extending additional credit.

### *Distressed corporate restructuring*

Distressed corporate restructuring refers to the customised debt restructuring solutions for debtors that are strapped into collapsed funding chains due to external factors such as macroeconomic changes and national adjustments.

For such debtors, the Group will assist the corporation to return to normal operations and improve solvency through customised restructuring solutions including debt restructuring, asset restructuring and equity restructuring, as well as the introduction of appropriate third party investors to provide credit enhancement such as guarantee or long-term acquisition commitment.

Enterprises for which the Group has provided NPA restructuring services are in the real estate, manufacturing, wholesale and retail, mining, financial and public and social enterprise industries.

Capitalising on the Group's capacity to offer a wide range of financial services, the Group may also enter into a financial consulting agreement with such enterprises to provide certain intermediary financial services such as consulting and advisory services and receive advisory fees in return.

For the years ended 31 December 2012 and 2013, the Group achieved revenue of RMB4,626 million and RMB8,850 million, respectively, from its distressed debts classified as receivable investments under the asset management business.



## **DES**

Historically, the Company's predecessor, Huarong Corporation, conducted its DES business as part of its policy-oriented business. In 1999, Huarong Corporation acquired a batch of DES assets involving equities of over 500 enterprises from ICBC. As part of its restructuring, the Group acquired DES assets in a buyout from the MOF which have not been disposed. For the years ended 31 December 2012 and 2013, the Group achieved revenue of RMB1,381 million and RMB3,360 million, respectively, from its DES business.

Through DES of the debtors' NPAs, the Group becomes a shareholder in the debtors' enterprises. The Group focuses on companies that have good potential for growth, industry consolidation, public listing or capital injection. Typically, the Group invests in leading companies in their respective industries and large SOEs that have large amounts of assets, diversified business lines and strong market influence. The Group's equity holdings are primarily in the manufacturing, mining and information technology industries. The Group aims to increase the value and liquidity of its holdings through means such as the following:

- Appointing shareholder representatives and board members to increase the decision-making efficiency of the debtor companies and assisting the debtor companies to standardise operations, reduce risk, enhance management standards and improve corporate governance;
- Promoting the public listing of the debtor companies or exchanging the equity for shares of publicly listed companies to increase the value and liquidity of the Group's investments by means of exiting in capital markets;
- Disposing the equities held through negotiated transfers, share repurchase, auctions and public sales through equity exchanges and other platforms; and
- Providing comprehensive financial services such as investment banking, debt restructuring, fund investment and financing services to increase the profitability of the enterprise.

The Group generates revenue from its equity management operations primarily through dividends received, as well as the gains through the disposal and restructuring of NPA and fees received from providing financial services.

## **Financial Intermediary Services**

Financial intermediary services mainly include entrusted distressed asset management, custody, credit enhancement, liquidation and advisory services.

The Group manages and disposes of distressed assets entrusted to it by financial institutions, non-financial enterprises and government authorities. Such distressed assets are generally originated from sales contracts or construction contracts. The Group receives commission fees for services such as restructuring, custody, bankruptcy receivership and liquidation. In addition, the Group also provides related services such as advisory and intermediary services. To date, the Group has been commissioned to conduct the custody, liquidation and restructuring as instructed by government entities, including the MOF and the PBOC, financial institutions and enterprises.

The Group also provides consultancy services, including advising on financing, assets or debt restructuring, financial management and devising business strategies and charges fees on these services.

## **Principal Investments**

In addition to its key NPA business, the Group also makes principal investments. The Group focuses on the following types of equity investments:

- Equity investments — the Group makes equity investments in NPAs and clients with development potential, and other equity investments such as primary market investments, pre-initial public offering investments and private equity investments. The Group also provides financial services to the investee enterprises to assist them in achieving an initial public offering; and
- Fixed income investments — the Group invests in various products such as bonds, funds, wealth management products and trusts for the purposes of achieving fixed investment returns.

The Group generates revenue from its equity investments primarily through capital gains when it exits through an initial public offering or share sale by its portfolio company. For its fixed income investments, the Group invests its capital in financial products, which in turn will be invested in target enterprises, and collects principal and yield upon maturity.

For the years ended 2012 and 2013, the investment income of the Group amounted to RMB4,296 million and RMB5,620 million, respectively.

## **Banking**

The Group conducts its banking business through the Company's subsidiary, HRXJ Bank. Commencing its operations on 12 October 2010, HRXJ Bank was established as a cooperation between the Company, the Hunan Province Party Branch and the Hunan Province Government through restructuring several local commercial banks and cooperation units. As at the date of this Offering Circular, the Group holds 50.98 per cent. of HRXJ Bank's equity interest and the registered capital of HRXJ Bank is RMB6,161 million. HRXJ Bank has its head office in Changsha, Hunan Province. As at the date of this Offering Circular, HRXJ Bank has 13 branches, one sub-branch and 141 business outlets. HRXJ Bank also holds a controlling interest in Xiangjiang Rural Bank.

HRXJ Bank's principal businesses include corporate banking, retail banking and SME financing.

### ***Corporate Banking***

Services offered by HRXJ Bank include the following:

- Deposits — HRXJ Bank offers Renminbi fixed and floating rate deposits targeted at corporate clients;
- Project finance — HRXJ Bank provides financing for large production facilities, property projects and amenities and refinancing for construction projects in progress or completed projects; and
- Loans — HRXJ Bank offers a wide variety of loan solutions and provides products such as general loans to assist cash flow difficulties, specialised land reserve and other property development loans targeting primary land developers, collateralised loans, revolving facilities and entrusted loans.

### ***Retail Banking***

HRXJ Bank also provides banking services to individuals, including:

- Personal loans — HRXJ Bank provides investment and business loans, guaranteed loans, mortgages, public official spending loans, automobile spending loans and personal revolving facilities;
- Wealth management — HRXJ Bank offers personal wealth management products and acts as an agent in respect of securities custodian services, trust services, Shanghai Gold Exchange trading services and insurance products; and
- Bank cards — HRXJ Bank offers a variety of bank cards to individuals, including ATM cards, business reimbursement cards and social security cards.

### ***SME Financing***

Building on HRXJ Bank's predecessor's history as a cooperative, HRXJ Bank has a strong SME client base. A specialised SME Business Management Department has been established within HRXJ Bank with the aim of developing the professional operations of SME businesses. Services offered to SMEs by HRXJ Bank include:

- Deposits — HRXJ Bank offers Renminbi floating rate deposits and Renminbi fixed deposits; and
- Loans — loans offered by HRXJ Bank include liquidity loans, fixed assets loans, industrial land mortgages, equipment and machinery mortgages, operating property secured loans, mining rights secured loans, trademark and patent-secured loans, commodity-pledged loans and letters of credit.

As at 31 December 2013, HRXJ Bank had total assets of approximately RMB148,108 million. For the year ended 31 December 2013, the operating income of HRXJ Bank amounted to approximately RMB4,117 million with net profit of approximately RMB1,539 million.

## **Financial Leasing**

The Group conducts its financial leasing business through the Company's subsidiary, Huarong Financial Leasing, which was established in 2006. Huarong Financial Leasing was one of the earliest companies to enter the financial leasing industry, and was established with the approval of the CBRC. Huarong Financial Leasing has a strong presence in the Zhejiang province with its head office located in Hangzhou, two branches in Ningbo and Jinhua and five subsidiaries in the Ningbo Duty-Free Zone. As at the date of this Offering Circular, the Group holds 79.9 per cent. of the equity interest in Huarong Financial Leasing.

Services offered by Huarong Financial Leasing include direct leasing, leaseback financing, operating leasing, hedging leasing, custodian leasing, transfer leasing and combined leasing. With a particular focus on SMEs, the Group has provided financial leasing services to over 5,000 enterprises in a wide range of industries covering 30 provinces, autonomous regions and municipalities, including:

- Industrial manufacturing equipment — industrial manufacturing equipment financial leasing constitutes the core of the Group's financial leasing business, providing financing to over 3,000 clients;
- Public transportation — the Group has established long-term cooperation with many large and medium urban bus companies, passenger transport companies and well-known medium-to-high-grade coach manufacturers. It has provided financial leasing services to the public transportation companies of 15 first-tier cities and eight second-tier cities and a total of 10,000 vehicles have been leased;
- Engineering equipment leasing — the Group provides financial leasing in respect of heavy machinery such as cranes, concrete mixers and road works machinery. The Group has provided financing to over 10 engineering enterprises across the PRC;
- Environmental — the Group has provided financial leasing in respect of water treatment and air pollution treatment to around 100 environmental industry enterprises;
- Medical — the Group has provided financial leasing services to around 390 hospitals across 30 provinces, municipalities and autonomous regions, allowing such hospitals to acquire high-end medical equipment; and
- Shipping — the Group's clients are primarily ship chartering companies, marine construction companies, shipbuilders, port operators and logistics companies. The Group has provided financial leasing services in respect of multi-purpose vessels, container carriers, oil tanks, chemical tankers, sand dredgers, marine engineering machinery, shipyard construction machinery and logistics facilities.

As at 31 December 2013, Huarong Financial Leasing had total assets of approximately RMB62,272 million. For the year ended 31 December 2013, the operating income of Huarong Financial Leasing amounted to approximately RMB2,045 million with net profit of approximately RMB1,206 million.

## **Securities**

The Group conducts a securities business through its subsidiary, Huarong Securities. Huarong Securities was established in September 2007 in Beijing. As at the date of this Offering Circular, the registered capital of Huarong Securities is RMB3,178 million, and the Group holds 79.66 per cent. of the equity interest in Huarong Securities. Huarong Securities engages in securities services such as:

- domestic equity underwriting;
- domestic equity trading;
- foreign exchange trading;

- securities proprietary trading;
- warrant trading;
- margin financing;
- share pledge repurchasing; and
- entrusted insurance funding.

Huarong Securities has also obtained licences and qualifications to conduct innovative businesses such as acting as an authorised brokerage firm on the National Equities Exchange and Quotations, an exchange established pursuant to the approval of the State Council for the transfer of unlisted shares in SMEs, acting as an intermediary in the refinancing business and engaging in the stock index futures business and the private issues of debt by SMEs.

Huarong Securities has over 30 business outlets across large cities such as Beijing, Shanghai, Tianjin, Chongqing, Shenzhen and Guangzhou. Huarong Securities was rated “A” by the CSRC for three consecutive years from 2011 to 2013.

As at 31 December 2013, Huarong Securities had total assets of approximately RMB11,653 million. For the year ended 31 December 2013, the operating income of Huarong Securities amounted to approximately RMB1,153 million with net profit of approximately RMB306 million.

### **Trust**

Huarong Trust was established in 2008 and was one of the earliest trust companies to be established in the PRC. As at the date of this Offering Circular, the Group holds 97.5 per cent. of the equity interest in Huarong Trust, and its registered capital is RMB1,518 million. Huarong Trust has offered trust products such as trust loans, equity investment trust products, investment trust products, infrastructure and energy trust, real estate trust and securitisation in a wide range of industries, including, infrastructure and facilities, coal, non-ferrous metals, modern manufacturing, securities, equities, real estate, modern services, strategic new industries and cultural industries.

As at 31 December 2013, Huarong Trust had total assets of approximately RMB3,642 million. For the year ended 31 December 2013, the operating income of Huarong Trust amounted to approximately RMB1,959 million with net profit of approximately RMB805 million.

### **Special Asset Management**

In 2006, the Group formed a joint venture, Rongde, with Deutsche Bank AG, Clearwater Capital and other international financial institutions. As at the date of this Offering Circular, the Group holds 59.30 per cent. of the equity interest in Rongde, and Rongde’s registered capital is RMB1,788 million. Rongde specialises in special asset investment by way of private equity investments, mezzanine investments and fixed income investments. In addition to investing with its own capital, Rongde also provides fund management services for private equity funds and mezzanine funds.

As at 31 December 2013, Rongde had total assets of approximately RMB13,102 million. For the year ended 31 December 2013, the operating income of Rongde amounted to approximately RMB1,871 million with net profit of approximately RMB714 million.

### **FUNDING**

The Group’s primary sources of funding include loans from commercial banks, shareholders’ equity, issuances of financial bonds and payables to the MOF. The Group intends to further develop and diversify its sources of funding, including interbank borrowings and insurance investment financing. The Group engages in interbank borrowings to match different tenor requirements.

The Group believes that it has adequate sources of capital and established relationships with financial institutions that provide credit facilities to the Group. The Group is able to effectively diversify funding risks due to low concentration of the available funding channels. As at 31 May 2014, the amount of credit facilities

available to the Group was over RMB330 billion from 48 commercial banks. The Group has a diverse lender base, with strategic cooperation agreements with more than 36 banks, including CDB, ICBC, ABC, BOC, CCB and BOCOM, and more than 25 non-bank financial institutions such as China Life and Taiping Insurance.

## **BUSINESS NETWORK**

The Company has extensive presence with 30 branches across 30 provinces, autonomous regions and municipalities in the PRC. The subsidiaries of the Company also contribute to further expand the business network of the Group. HRXJ Bank, headquartered in Changsha, Hunan Province, has 13 branches, one sub-branch and 141 business outlets in the PRC. Huarong Financial Leasing, headquartered in Hangzhou, Zhejiang Province, has two subsidiaries and five project companies. Huarong Securities, headquartered in Beijing, has over 30 business outlets in the PRC.

## **COMPETITION**

For its distressed asset management business, the Group mainly competes with the other three AMC's established by the State Council in 1999, namely China Cinda Asset Management Co., Ltd., China Orient Asset Management Corporation and China Great Wall Asset Management Corporation. Despite the presence of such major AMC's, the Group faces limited competition in the market because of the large size and the rapid rate of expansion of the distressed asset management industry in the PRC. Since its restructuring in 2012, the Group continues to focus on developing its distressed asset management business while distinguishing itself from its competitors by also focusing on its banking business, which the other three state-owned AMC's do not participate in.

For its distressed asset management business, the Group also faces, albeit to a lesser extent, competition in local markets from AMC's established by local governments in the PRC or private and foreign entities engaged in distressed asset management business. Nonetheless, the Four AMC's enjoy an advantage over such competitors due to their industry experience, professionals, distribution and service network and capital funding. The Group believes that the Four AMC's will remain the industry leaders in distress asset management in the near future.

For its banking business, the Group mainly competes against the commercial banks that operate in the Hunan province.

For its financial leasing business and other financial services businesses, the Group competes against major domestic financial institutions, which offer similar financial products and services such as leasing, securities and trust services.

## **EMPLOYEES**

As at 31 December 2013, the Group employed approximately 8,400 employees, of which 1.2 per cent. have obtained a qualification of doctoral degree or above, 17.1 per cent. have obtained a master's degree and 53.9 per cent. have obtained a bachelor's degree. As at 31 December 2013, employees with junior-level professional qualifications approximately accounted for 31.7 per cent. of the total number of employees, employees with mid-level professional qualifications approximately accounted for 53.4 per cent. and employees with senior-level professional qualifications approximately accounted for the remaining 14.9 per cent.

The Group is committed to recruiting, training and retaining skilled and experienced employees throughout its operations. Many of the Group's employees hold professional qualifications, including Chartered Financial Analysts (CFA), Certified Internal Auditors (CIA), Certified International Investment Analysts (CIIA), Project Management Professionals (PMP), Certified Public Accountant (CPA), certified real estate appraisers and Financial Risk Manager (FRM). The Group is also committed to providing local and overseas professional training to its employees. From 2009 to 2013, the Group conducted 1,465 local and overseas trainings on asset management, risk management, wealth management, financial product development, financial audit and laws and regulations. In accordance with the relevant PRC laws and regulations, the Group contributes to social welfare insurance for its full-time employees in the PRC, including basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

## RISK MANAGEMENT

The Group is committed to building a comprehensive risk management system, organisational structure and risk management regime covering all business lines. The overall objectives of the Group's risk management are to ensure:

- stable operations and healthy development of the Group;
- risk management that is consistent with the Group's development strategy and operational objectives;
- proper execution of significant decision-making measures adopted by the Group to realise its operational objectives and guarantee operational efficiency and effectiveness; and
- compliance of the Group's businesses with relevant regulatory requirements, as well as absence of other material risks relating to the Group's business operations.

### Risk Management Structure

The overall structure of the Group's risk management is as follows:

- the Board and the Board of Supervision — the Board, being the highest command of the Group's comprehensive risk management, is responsible for formulating and improving the Group's unified risk policies and risk preferences; the Board of Supervision is responsible for assessing the effectiveness of the Group's risk management and internal control. The Risk Management Committee under the Board supervises and evaluates the Group's risk management and the Audit Committee supervises the Group's internal controls and internal audit;
- the Senior Management Team — the Group's Senior Management Team, including the Chief Risk Officer, is accountable to the Board for the overall effectiveness of the Group's risk management;
- the Head Office and other functional departments — the Group defines specific functions related to its overall risk management at the Head Office and the internal audit department is set up to supervise and evaluate the effectiveness of the Group's risk management. Meanwhile, various other functional departments at the Head Office also assume risk management responsibilities taking into account the nature and features of their respective businesses.
- subsidiaries and branches — the Group was the first among the Four AMCs to implement the Chief Risk Officer and Risk Controller systems in branches throughout their entire organisational system. The Group gradually established a vertical management system to promote the independence and professionalism of the Risk Controller. The Group also established the "Top Leader" responsibility system of risk management, under which the head of each entity serves as the principal officer responsible for risk management and performance of risk management duties.

Furthermore, the Group established the "Three Lines of Defence" system of comprehensive risk management to manage risks before, during and after their occurrence. Under this system, the Group engages in risk review, risk monitoring and post-investment risk management. Since the restructuring, the Group has strictly followed the CBRC's regulatory requirements on consolidation of financial statements, built a regulatory information system for consolidation of risk management, defined risk management responsibilities for every level within the Group and gradually established a comprehensive risk management framework. Additionally, the Group has set up an authorisation and credit extension management system which is mainly characterised by authorisation and credit extension by the legal representative of the Group. The members of senior management of the Company's subsidiaries and branches are authorised to manage risks in light of their business development status, risk management capability and risk tolerance. Other matters beyond their authority are to be filed for approval by the Company.

The Group's business operation system mainly falls into three categories: business operation guidelines, operational instructions and product manuals. Business operation guidelines represent non-compulsory, systematic documents which provide guidance and convenient reference for relevant personnel at various levels with respect to the Group's business operations. Operational instruction are business operation requirements imposed on each business line that must be strictly complied with at all levels within the Group. Product manuals refer to documents which define matters such as admission standards for business projects, operational procedures and approval process for major risks.



The Group periodically conducts risk monitoring and risk analysis to analyse the type, investment direction, transactional structure and risk review of existing commercial projects, while constantly striving to enhance post-implementation project management at the same time. Also, the Group organises regular inspection on all commercial projects and other entities operated by it and encourages all subsidiaries and branches to properly carry out post-implementation project management. The Group also conducts periodic risk evaluations and unannounced inspections to encourage the subsidiaries and branches to continuously improve their risk management awareness and capability.

## **Major Risk Management**

The Group adopts both quantitative and qualitative approaches to evaluating risk and has established a sound risk management mechanism as well as robust procedures to ensure that all types of risks are monitored thoroughly and effectively. The Group also applies risk management techniques to conduct various scenario (or sensitivity) analyses and stress tests to balance its risk tolerance and profitability.

### ***Credit Risk***

Credit risk is the risk of loss resulting from the failure of one of the Group's debtors to make principal or interest payment in full when due. The Group is exposed to credit risk primarily associated with its NPLs and other impaired assets in Renminbi or foreign currencies stripped from major financial or non-financial institutions in the PRC, the credit quality of whose borrowers may deteriorate because of socioeconomic or customer-specific factors linked to economic performance.

The Group has established and strictly follows its business management policy guidelines and business approval process, which cover before, during and after the occurrence of credit risk. The business management policy guidelines and business approval process mainly incorporate three components: counterparty due diligence, project approval and post-implementation project management. Among these, counterparty due diligence plays an important role in the Group's credit risk management and is considered the most significant initial defence against credit risk. Meanwhile, the Group controls customer concentration risk by setting investment quotas for its counterparties.

### ***Market Risk***

Market risk refers to the potential loss of the Group as a result of changes in interest rates, market prices, foreign currency exchange rates and other related risk factors. The principal types of market risks to which the Group is exposed include interest rate risk, market price risk and exchange rate risk.

With respect to assets and liabilities of the Group that are sensitive to interest rate, the Group manages interest rate risk by strictly controlling the maturity date and strengthening the combination of maturity and interest rate structure between its liabilities and its distressed assets. With respect to market price risk, the Group closely monitors effects of macro-economic changes and industry trends on operations and financial conditions of the enterprises in which the Group owns equity interest, as well as on the Group's own equity value, and adjusts its equity management and disposal strategies accordingly. With respect to market risks to which the Company's subsidiaries are exposed, the Group has established market risk management systems in accordance with regulatory requirements and standard industry practices.

### ***Liquidity Risk***

Liquidity risk refers to the risk of failure to obtain sufficient funds, or to obtain funds at reasonable cost, to repay the Group's financial obligations when they fall due. Liquidity risk can be further divided into financing liquidity risk and asset liquidity risk.

- Financing liquidity risk — the Group manages financing liquidity risk by increasing the number of banks that provide credit facilities to the Group, increasing the available credit limits and extending the credit terms. At the same time, the Group explores additional external financing channels, including, among others, issuance of financial bonds, introduction of strategic investors and public listing.
- Asset liquidity risk — the Group manages asset liquidity risk by continuously improving transactional structure, shortening turnover period of projects, increasing cash flow return rate of projects, and implementing instalment repayment schedule for customers. The Group increases its surplus reserve rate and strengthens its asset-liability management through centralised management of funds.

### ***Operational Risk***

Operational risk refers to the risk of losses resulting from internal operational failures or external events beyond the Group's control. Internal operational failures arise from inappropriate internal procedures (procedure risk), system failures (system risk) or artificial errors or corruption (artificial risk). Uncontrollable external events that contribute to operational risk mainly include, among others, law and policy factors, changes in the macro-control policies of the PRC government, regional development strategies or legal requirements, such as adjustments to taxation law or accounting standards.

In order to effectively manage operational risk and internal control, the Group has formulated a set of internal risk control procedures and established a system of supervision by the Board and the Board of Supervision on management level risk control. The Group received the ISO 9000 Quality Management System Certification in 2005 and remains subject to annual evaluation and review. The Group actively implements risk responsibilities across different departments and job positions in different stages of project management such as due diligence, review and approval, conditions examination, funds recovery and post-implementation project management. The Group allocates risk responsibilities to ensure proper risk management performance by various departments, such as legal department, revaluation department and business review department. The business department is responsible for post-implementation project management and handling project risks. The risk management director of each branch is directly responsible for managing operational risk of the relevant branch. The audit department is mainly responsible for supervision of operational risk and internal audit of branches within the Group. The appointment of the general manager of the audit department is directly approved by the Board. The general manager of the audit department is highly independent and is accountable to the audit committee.

### ***Legal Compliance Risk***

Litigation and compliance risk refers to the risk of being exposed to legal proceedings and non-compliance of regulatory requirements during the Group's ordinary course of business.

In order to ensure the Group's compliance with regulatory requirements during its business operations, the Board is ultimately responsible for reviewing and approving the Group's compliance policies and compliance risk reports. The Risk Management Committee under the Board is responsible for supervising the Group's management of compliance risk. The legal department is responsible for providing legal support for the Group's operations and each branch maintains its own legal compliance staff.

### **LEGAL PROCEEDINGS**

From time to time, the Group is involved in legal proceedings, claims or disputes in the ordinary course of its business. As at the date of this Offering Circular, there is no litigation or arbitration or claim pending or threatened against the Group which could be expected to have a material adverse effect on its business, financial condition and results of operations.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

As at the date of this Offering Circular, the members of the Board are as follows:

Name	Age	Position
<i>Executive Directors</i>		
Lai Xiaomin .....	52	Chairman of the Board, Executive Director
Ke Kasheng.....	50	President, Executive Director
Wang Keyue.....	57	Executive Vice President, Executive Director
<i>Directors</i>		
Tian Yuming.....	49	Director
Wang Cong .....	51	Director
Dai Lijia.....	43	Director
<i>Independent Director</i>		
Song Fengming .....	67	Independent Director

**Mr Lai Xiaomin** has served in his current position since September 2012. He is a deputy of the 12th National People's Congress. In July 1983, Mr Lai started his career in the Department of Planning and Capital at the PBOC, where he served successively as Section Chief, Deputy Division Director, Division Director of the Central Capital Division, Division Director of the Planning & Capital Department, and Deputy Director General of the Credit Management Department. Subsequently, Mr Lai served as Deputy Director General of the No. 2 Banking Supervision Department at the CBRC, Head of the Preparatory Group, Director General and Party Secretary of the Beijing Banking Regulatory Bureau, Director General of both the General Office and the CPC Office, Chief Press Spokesman in the CBRC, Deputy Secretary of CPC China Huarong Committee, and President of the Company. Mr Lai is a CPC member, holds a postgraduate degree from the Party School and is a senior economist.

**Mr Ke Kasheng** has served in his current position since September 2012. In July 1984, Mr Ke began working in the Currency Issuance Division of the PBOC Guangdong Branch, where he subsequently took the position of Deputy Chief and Chief of the division. He then became Deputy Director of the General Office and Director of the Comprehensive Planning Division. Mr Ke successively served as Governor and Secretary of the Leading CPC Members' Group (Committee) of the PBOC Shantou Branch, Director of the Internal Audit Division, member of the CPC Committee and Deputy Governor of the PBOC Guangzhou Branch. He was also a member of the Preparatory Group, Deputy Director, member of the CPC Committee of the CBRC Guangdong Regulatory Bureau and Director General of CBRC Supervision Department for Non-bank Financial Institutions. Mr Ke is a CPC member, holds a postgraduate degree and is a senior economist.

**Mr Wang Keyue** has served in his current position since September 2012. Mr Wang started his career in December 1976. He served first as an accountant of Service Outlet and Deputy Chief of the General Office of the PBOC Hebei Langfang Sub-branch. He then worked as Deputy Director and Director of the Service Outlet at the Hebei Langfang Central Branch of ICBC. Subsequently, he was Vice President, President and Secretary of the Leading Party Member's Group of ICBC Hebei Langfang Sub-branch before he became Vice President, President, and member and Secretary of the Leading Party Members' Group of ICBC Hebei Langfang Branch. He was also Vice President and member of the CPC Committee of ICBC Hebei Branch. Afterwards, he was General Manager and Secretary of the CPC Committee of the Company's Shijiazhuang Branch Office. He then became General Manager of the Company's No. 3 Asset Management Department and General Manager and Secretary of the CPC Committee of the Company's Beijing Branch Office. He was thereafter assigned back to the headquarters of the Company as President Assistant, Executive Vice President and member of the CPC Committee of the Company. Mr Wang is a CPC member, holds a postgraduate degree and is a senior economist.

**Mr Tian Yuming** has served in his current position since September 2012. In October 1981, Mr Tian joined the People's Liberation Army and served in numerous positions, including, a platoon leader of a navy test base, Deputy Director of the Logistics and Education Research Office of the People's Liberation Army Military School of Economics, a staff member of the Headquarters of the People's Liberation Army General Logistics Department, and Vice President (the level of deputy director general) and CPC Deputy Secretary of the China Finance News. Mr Tian is a CPC member and holds a postgraduate degree.

**Ms Wang Cong** has served in her current position since September 2012. Ms Wang began working at the PBOC Institute of Finance in August 1985. At the PBOC, Ms Wang served successive positions as Deputy Director of the Research Organisation Division, Deputy Director (in charge) of Financial and Tax Research under the Research Bureau, Consultant of the Risk Disposal Division for Banking Institutions, and Director of the Deposit Insurance System Research Division under the Financial Stability Bureau. Ms Wang also previously held the post of Assistant General Manager of BOC's Personal Banking Department. Ms Wang is a CPC member, holds a postgraduate degree and is also an associate research fellow.

**Ms Dai Lijia** has served in her current position since September 2012. In August 1993, Ms Dai began working at the Audit Department of People's Insurance Company of China, and later served as Deputy Director of the department. Afterwards, Ms Dai successively held the posts of Deputy Director of Non-bank Divisions under the Work Department of the Board of Supervisors in the Central Financial Work Committee and Director of Non-bank Divisions under the Work Department of the Board of Supervisors at the CBRC. When working at the CBRC No. 4 Banking Department, Ms Dai successively held the posts of Consultant of the Supervision Division of CDB, the Office (the division for general office) Director, and Director of the Market Admittance Division and Deputy Inspector. Ms Dai is a CPC member, a postgraduate and a non-practising member of the Chinese Institute of Certified Public Accountants.

**Mr Song Fengming** has served in his current position since September 2012. In July 1970, Mr Song started his career at Jiangsu Nantong Diesel Engine Factory. He served successively as a Lecturer and Vice Dean (in charge) of the Management Department at Jiangsu University of Science and Technology, an Associate Professor at the School of Economics and Management, Director of the Teaching and Research Office of International Trade and Finance, Dean of the Finance Department at the School of Economics and Management, and Co-Director of the China Center for Financial Research at Tsinghua University. Mr Song is a professor and a doctoral tutor.

## BOARD OF SUPERVISION

As at the date of this Offering Circular, the members of the Board of Supervision are as follows:

Name	Age	Position
Sui Yunsheng .....	59	Chief Supervisor
Wang Qi .....	58	External Supervisor
Zheng Shengqin .....	51	Employee Supervisor

**Mr Sui Yunsheng** has served in his current position since September 2012. Mr Sui started his career in August 1976. He worked at the time as a loan officer for the Anshan Loan Office in Anshan Iron and Steel, Liaoning Branch. He later served as Deputy Chief and Chief of the Anshan Loan Office for Anshan Iron and Steel's Anshan Branch. He was then named Assistant President, Vice President, President, and Deputy Party Secretary of the CPC Committee, all whilst at ICBC Anshan Branch. He was later named Deputy Governor and member of the CPC Committee of ICBC Liaoning Branch. From there he went to ICBC Shanxi Branch where he successively worked as Deputy Governor, Governor, and Deputy Secretary and Secretary of the CPC Committee of that branch. He then moved to the position of Governor of ICBC Sichuan Branch. His positions with the Company started as Executive Vice President and member of the CPC China Huarong Committee. Mr Sui is a CPC member, a postgraduate and also a senior economist.

**Ms Wang Qi** has served in her current position since September 2012. In June 1975, Ms Wang began working at Beijing Municipal Finance Bureau, where she successively served as Deputy Director and then Director of the Comprehensive Planning Division, Deputy Director and Director of the Foreign Affairs Division, and Director of the General Office of the Treasury and Finance Division. Ms Wang is a CPC member, a postgraduate, a non-practising member of the Chinese Institute of Certified Public Accountants and a senior accountant.

**Ms Zheng Shengqin** has served in her current position since March 2014. Ms Zheng started her career in August 1984 and has served as Deputy Head and Head of the Committee for Discipline and Inspection of the ICBC Head Office, Senior Manager and Deputy General Manager of the Debt Management Department, Deputy General Manager (Acting) and General Manager of the Operating Management Department, General Manager of the Risk Management Department of the Company, Deputy Secretary of the CPC, Chairman of the Supervisory Committee, Secretary of the Committee for Discipline and Inspection of Huarong Securities, and Standing Deputy Chairman of the Labour Union of the Company. Ms Zheng is a CPC member and a senior economist.

## SENIOR MANAGEMENT TEAM

As at the date of this Offering Circular, the members of the Senior Management Team are as follows:

Name	Age	Position
Ke Kasheng.....	50	President, Executive Director
Dai Kewei.....	59	Executive Vice President (President Level)
Xu Zhaohong .....	59	Executive Vice President
Liang Zhijun .....	58	Executive Vice President
Wang Keyue.....	57	Executive Vice President, Executive Director
Zhang Lin .....	58	Executive Vice President
Li Yuping .....	52	Secretary of the Discipline Inspection Committee
Wang Lihua.....	50	Executive Vice President
Xiong Qiugu .....	54	Executive Vice President
Hu Jiliang.....	50	President Assistant
Wang Wenjie.....	52	President Assistant

**Mr Ke Kasheng** has served in his current position since September 2012. See “— *Board of Directors*”.

**Mr Dai Kewei** has served in his current position since September 2012. Mr Dai started to work in April 1974, and served successively as Deputy Director General of Schools in the Central Committee of the Communists Youth League and Deputy Director General and Director General in the General Office. He then served as both Vice Director General and Deputy Director General of the General Office of the All-China Students Federation. At the time, he was a member of the Central Committee of the Communists Youth League Standing Committee. He then became CPC Secretary of the Central Financial Work Committee, and Director General of the Propaganda Department of the CBRC. At the Company, he is a member of the CPC China Huarong Committee and Secretary of the Discipline Inspection Commission. Mr Dai is a CPC member, has a doctoral degree and is a senior economist.

**Mr Xu Zhaohong** has served in his current position since September 2012. Mr Xu started his career in January 1975. He once worked as a staff at the PBOC Personnel Department. He then became Chief of the General Office of the Employee and Salary Management Department and Deputy Director of the Welfare Division. At ICBC, he became Division Director, then Deputy General Manager and General Manager of the Human Resources Department. With the Company, he has been General Manager of the Human Resources Department and Chief of the Organisational Department for the CPC Committee. He was then promoted to General Manager and CPC Secretary of the Company’s Beijing Branch. Afterwards, he became the Company’s President Assistant, Executive Vice President and member of the CPC China Huarong Committee. Mr Xu is a CPC member and a senior economist.

**Mr Liang Zhijun** has served in his current position since September 2012. In August 1978, Mr Liang began working at the PBOC Institute of Finance. He then served as Deputy Division Director and Division Director of the PBOC Audit Department, Vice General Manager and General Manager of China Huacheng Financial Company, Executive Vice President of China Huacheng Investment Management Co., Ltd., and Deputy Director General and Director General of the Board of Supervisors for the key financial institutions under the State Council. He is a member of the CPC China Huarong Committee as an Executive Vice President. Mr Liang is a CPC member and a senior economist.

**Mr Wang Keyue** has served in his current position since September 2012. See “— *Board of Directors*”.



**Ms Zhang Lin** has served in her current position since September 2012. Ms Zhang began working in September 1974. She served successively as a teacher in the cadre school of ICBC Wuhan Branch and Chief, Deputy Director, and Director at the Personnel Department of ICBC Head Office. She then became Head of the General Manager Office and Senior Manager at ICBC Hong Kong Branch, Deputy General Manager of the Education Department and Deputy Chief of the Propaganda Department of ICBC Head Office. Shortly thereafter, she became Deputy General Manager (in charge) of the Investment Banking Department, followed by a promotion to General Manager of the Human Resources Department and Chief of CPC's Organisation Department of Huarong Corporation. She then became Huarong Corporation's President Assistant. She is a member of the CPC China Huarong Committee, as Executive Vice President. Ms Zhang is a CPC member, holds an MBA degree and is as a senior economist.

**Mr Li Yuping** has served in his current position since September 2012. Mr Li began working in July 1984. He was once Editor of the Economic Daily, and served successively as Editor and Deputy Director of Financial News. Mr Li then became Deputy Division Director at the Propaganda Department, Deputy Division Director (director level) of the Civilisation Office, and Division Director of Propaganda Department (Civilisation Office) of the Propaganda Department in the Central Financial Work Committee. He then became Director of the News Division of the Information Department at the CBRC. He is Deputy Director General of the CPC Committee of the CBRC Jiangsu. Mr Li is a CPC member and also a chief editor.

**Mr Wang Lihua** has served in his current position since September 2012. Mr Wang started working in July 1985. He once worked in the MOF and served successively as Chief of the Treasury and Financial Department, Deputy Division Director of the General Office, Deputy Division Director and Division Director of the No. 2 Financial Division, and then Deputy Director in the MOF Financial Department. Mr Wang is a CPC member and has a doctoral degree.

**Mr Xiong Qiugu** has served in his current position since September 2012. Mr Xiong started working in October 1980. He once worked as Vice President of ICBC Jing'an Sub-branch, then as Deputy Director of General Office of ICBC Jiangxi Branch. He was then promoted to Vice President and President of ICBC Jingdezhen Branch. He later became Deputy General Manager and member of the CPC Committee of the Company's Nanchang Branch. At the Company's headquarters, Mr Xiong subsequently held posts of Deputy General Manager of Debt Management, General Manager of the Asset Management Department I, General Manager of the Finance & Accounting Department (and later concurrently as Chief Financial Officer). He was later promoted to President's Assistant. Mr Xiong is a CPC member and also a senior economist.

**Mr Hu Jiliang** has served in his current position since September 2012. Mr Hu began working in December 1981. He once served as Deputy Chief of PBOC's Quzhou Sub-branch. When he worked at ICBC, he served successively as Head of the Jinhua Sub-branch, then as Deputy Head of the Quzhou Branch. He also served as Deputy Chief of the Plan & Credit Section of the Quzhou Branch, Deputy Manager of the Quzhou Trust Investment Company, Deputy Director and Director of Infrastructure at the Quzhou Branch, General Manager of Jinxin Industrial Company, Chief of Planning and Loans at the Quzhou Branch, General Manager of the Zhejiang Industrial and Commercial Real Estate Company, Deputy General Manager (in charge) of Asset Management, and Deputy Division Director of Asset Risk Management of the Zhejiang Branch (in charge). He then became Senior Manager, General Manager Assistant, Deputy General Manager and member of the CPC Committee of the Company's Hangzhou Branch. He is also Deputy Director General of the First Restructuring Office of the Company, CPC Deputy Secretary, General Manager, CPC Secretary, and Chairman of Huarong Financial Leasing. He is the Company's Chief Marketing Director. As a CPC member, Mr Hu holds an MBA degree, and is a senior economist.

**Mr Wang Wenjie** has served in his current position since September 2012. Mr Wang started working in July 1986. For ICBC, he first held the position of Deputy Chief, then Chief of Credit for Technical Innovation, and then successively took the posts of Deputy Director and Director of the Project Management Division. Mr Wang later took the office of Deputy General Manager of the Assessment and Consulting Department. For the Company, he served successively as Deputy General Manager (in charge) and General Manager of the International Business Department, Deputy Party Secretary, Deputy General Manager (General Manager level), Party Secretary and General Manager of the Nanjing Branch, General Manager of Investment Department, and Chief Investment Officer. Mr Wang holds a master's degree and is a CPC member and a senior economist.



## DESCRIPTION OF THE KEEPWELL DEED

*The following contains summaries of certain key provisions of the Keepwell Deed. Such statements do not purport to be complete and are qualified in their entirety by reference to the Keepwell Deed. Unless otherwise defined herein, defined terms used in this section shall have the meanings given to them in the Keepwell Deed.*

### Positioning of the Guarantor; Ownership of the Issuer and the Guarantor

At all times during the term of the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee that:

- (i) it shall directly or indirectly own and hold all the outstanding shares of each of the Issuer and the Guarantor and will not directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares unless required to dispose of any or all such shares pursuant to a court decree or order of any government authority, in each case, not obtained at the direction or request of the Issuer, the Guarantor or the Company (and which, in the opinion of an independent legal adviser to the Company of international standing, may not be successfully challenged) or as permitted under the Trust Deed; and
- (ii) it shall maintain the Guarantor as the primary overseas investment holding subsidiary and fund raising platform of the Company and shall directly or indirectly appoint all senior management of the Guarantor.

### Maintenance of Consolidated Net Worth; Liquidity

At all times during the term of the Keepwell Deed, the Company will undertake to the Trustee to procure:

- (i) each of the Issuer and the Guarantor to have a Consolidated Net Worth of at least U.S.\$1.00 at all times;
- (ii) each of the Issuer and the Guarantor to have sufficient liquidity to make timely payment of any amounts payable by it under or in respect of the Notes and the Guarantee of the Notes in accordance with the Terms and Conditions and/or the Trust Deed; and
- (iii) each of the Issuer and the Guarantor to remain solvent and a going concern at all times under the laws of its respective jurisdiction of incorporation or applicable accounting standards.

### Relevant Indebtedness

At all times during the term of the Keepwell Deed, the Company will undertake to the Trustee that:

- (i) it, as an issuer, shall not create or have any Relevant Indebtedness outside the PRC, unless the Company, subject to it having used all reasonable efforts to obtain all requisite Regulatory Approvals, at the same time or prior thereto without requiring any consent from any Noteholder, (a) provides an irrevocable and unsubordinated guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of the Notes or (b) offers to exchange the Notes for securities issued or guaranteed by the Company with terms substantially identical to those of the Notes as certified by an Independent Investment Bank and notified in writing to the Trustee;
- (ii) it shall comply with Condition 3(a) of the Terms and Conditions as if all references to “the Guarantor” therein shall be replaced with “the Company” and all references to “Guarantor Subsidiary” therein shall be replaced with “Subsidiary”; *provided that* as regards (a) the Issuer and the Guarantor, such Condition will continue to apply to the Guarantor and the Guarantor Subsidiaries; and (b) the Company and its Subsidiaries (other than the Guarantor and the Guarantor Subsidiaries), the restrictions set forth in such Condition will in addition not apply to any Security Interest upon the Company’s or such Subsidiaries’ property or assets, at any time, to secure any Relevant Indebtedness outside the PRC of the Company or its other Subsidiaries only to the extent that the book value of such property or assets is less than five per cent. of the consolidated total assets of the Company and its subsidiaries; and
- (iii) it will not create, incur, assume or permit to exist or have outstanding any guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of any Relevant Indebtedness outside the PRC without, subject to it having used all reasonable efforts to obtain all requisite Regulatory Approvals, at the same time or prior thereto and without requiring any consent from any

Noteholder, (a) providing to the Notes the same or an equivalent guarantee (or indemnity the economic effect of which shall be similar to a guarantee) or (b) offering to exchange the Notes for securities issued or guaranteed by the Company with terms substantially identical to those of the Notes as certified by an Independent Investment Bank and notified in writing to the Trustee,

*provided that* if Regulatory Approvals are required in order to effect the action set out in paragraph (i) or (iii) above, the Company shall be required to use all reasonable efforts to obtain all requisite Regulatory Approvals, *provided further that*, if, having used such efforts, it is unable to obtain such Regulatory Approvals, (in the case of paragraph (i)) the Company shall be permitted to create or have such Relevant Indebtedness outside the PRC or (in the case of paragraph (iii)) the Company shall be permitted to create, incur, assume or permit to exist or have outstanding a guarantee (or indemnity the economic effect of which shall be similar to a guarantee) in respect of such Relevant Indebtedness outside the PRC, without complying with any further obligations under paragraph (i) or (iii) above (as the case may be).

For the purposes of paragraphs (i) and (iii) above, “**Relevant Indebtedness**” of any person means (a) any present or future indebtedness that is in the form of, or represented or evidenced by any bonds, notes, debentures, debenture stocks, loan stock certificates or other securities, which are, or intended to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter market or other securities market and has a final maturity of one year or more from its date of incurrence or issuance; and (b) all Relevant Indebtedness of others guaranteed by such person.

### **Other Covenants**

For so long as the Notes are outstanding, the Company will further undertake:

- (i) to procure that the articles of association of each of the Issuer and the Guarantor shall not be amended in a manner that is, directly or indirectly, adverse to Noteholders in any material respect;
- (ii) to cause each of the Issuer and the Guarantor to remain in full compliance with the Terms and Conditions, the Guarantee of the Notes, the Trust Deed, the Agency Agreement, the Deed of Undertaking and all applicable rules and regulations in the British Virgin Islands, Hong Kong and England, in each case in all material respects;
- (iii) promptly to take any and all action necessary to comply with its obligations under the Keepwell Deed, the Trust Deed, the Agency Agreement and the Deed of Undertaking in all material respects;
- (iv) to ensure that the Issuer has sufficient funds to meet its obligations with respect to any and all fees, expenses and obligations of the Issuer, including but not limited to fees and expenses with respect to the corporate formation and administration of the Issuer;
- (v) to cause each of the Issuer and the Guarantor to take all action necessary in a timely manner to comply with its obligations under the Keepwell Deed and the Deed of Undertaking in all material respects;
- (vi) to ensure that the Guarantor and the Issuer will comply with Condition 3(c) of the Terms and Conditions;
- (vii) to procure that the Issuer will not carry on any business activity whatsoever other than the activities in connection with the issue of notes (such activities in connection with the issue of notes shall, for the avoidance of doubt, include the on-lending of the Proceeds of the Notes to only either the Company or any Subsidiary of the Company located in a jurisdiction outside the PRC), and to cause such borrower to pay the interest and principal in respect of such intercompany loan on time; and
- (viii) to the extent a Subsidiary lends, novates or assigns any of the Proceeds of the Notes it receives from the Issuer, to cause such Subsidiary to lend, novate or assign such Proceeds of the Notes only to other Subsidiaries.

The Company will also undertake to the Trustee to furnish the Trustee with a compliance certificate and periodic financial reports in accordance with the terms of the Keepwell Deed.

## **General**

The Keepwell Deed will not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, a guarantee by, or any legal binding obligation of, the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction.

Notwithstanding anything contained in the Keepwell Deed, if, and to the extent that the Company is required to obtain any Regulatory Approvals in order to comply with its obligations under the Keepwell Deed, the performance of such obligation shall always be qualified by, and subject to, the Company having obtained such Regulatory Approvals. In this regard, the Company will undertake in the Keepwell Deed to use all reasonable efforts to obtain such Regulatory Approvals within the time stipulated by the relevant Approval Authorities, if applicable.

The Keepwell Deed may only be modified, amended or terminated by the written agreement of the parties thereto.

The Keepwell Deed will be governed by and construed in accordance with English law.

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Keepwell Deed and accordingly any legal action or proceedings arising out of or in connection with the Keepwell Deed may be brought in such courts.

## DESCRIPTION OF THE DEED OF UNDERTAKING

*The following contains summaries of certain key provisions of the Deed of Undertaking. Such statements do not purport to be complete and are qualified in their entirety by reference to the Deed of Undertaking. Unless otherwise defined herein, defined terms used in this section shall have the meanings given to them in the Deed of Undertaking.*

The Company intends to assist the Issuer and the Guarantor in meeting their respective obligations under the Notes, the Guarantee of the Notes, and the Trust Deed. Pursuant to the terms of the Deed of Undertaking to be entered into between the Company, the Issuer, the Guarantor and the Trustee, the Company will undertake to the Trustee that upon receipt of the Trigger Notice, the Company will:

- (i) grant the Loan and procure remittance of the Shortfall Amount as a loan to the Guarantor or the Issuer (as applicable);
- (ii) make the Investment; and
- (iii) effect the Purchase. The equity interests comprise the interests held by the Guarantor or any other Offshore Subsidiary of the company in accordance with Clause 6 of the Deed of Undertaking.

The Shortfall Amount means the aggregate of the following:

- (a) an amount in U.S. dollars sufficient to enable the Issuer and the Guarantor to discharge in full their respective obligations under the Notes, the Guarantee of the Notes, the Agency Agreement and the Trust Deed that are due and owing as at the date of the Trigger Notice (including without limitation the principal amount of the Notes then outstanding that is due and owing as at the date of such Trigger Notice and any interest due and unpaid on the Notes up to but excluding the date of such notice);
- (b) an amount reflecting the interest payable in respect of the immediately following interest period on the Notes, if any, plus;
- (c) all costs, fees and expenses and other amounts payable in U.S. dollars to the Trustee and/or the Agents under or in connection with the Notes, the Guarantee of the Notes, the Trust Deed, the Agency Agreement, the Keepwell Deed and/or the Deed of Undertaking that are due and owing as at the date of such Trigger Notice plus provisions for fees and expenses of the Trustee and /or Agents which may be incurred after the date of the Trigger Notice in accordance with the Notes, the Guarantee of the Notes, the Agency Agreement and the Trust Deed, as notified by the Trustee in the Trigger Notice, in each case, in connection with the recovery of amounts due under items (a) and (b) above.

The obligations of the Company under the Deed of Undertaking will be suspended if any of the Company, the Guarantor and the Issuer receives a notice in writing from the Trustee stating either that, the Trustee has received a notice in writing from the paying agent under the Notes that all of the payment obligations of the Issuer and the Guarantor under the Notes, the Guarantee of the Notes and the Trust Deed that are then due and owing have been satisfied in full and the Trustee is satisfied that all amounts due and payable to the Trustee under the Trust Deed have been satisfied in full, or that the Event of Default resulting in the service of such Trigger Notice from the Trustee has been waived by the Trustee in accordance with the Trust Deed).

The Trustee may, at any time in its sole and absolute discretion, discuss with the Company on the choice(s) of remedy(ies) under the Deed of Undertaking based on the then facts and circumstances. The Company will acknowledge in the Deed of Undertaking that such option to discuss is completely at the discretion of the Trustee and any failure or election by the Trustee to not undertake such discussions will not in any manner limit the Trustee's ability to take remedial or enforcement action against the Company.

### **U.S. Dollar Cross Border Loan**

In relation to the grant of the Loan upon the receipt of a Trigger Notice, the Company will undertake in the Deed of Undertaking to:

- (i) within 15 Business Days upon the receipt of a written Trigger Notice (a) execute the Loan Agreement with the Issuer or, as the case may be, the Guarantor pursuant to which the Company agrees to lend, and the Issuer or, as the case may be, the Guarantor agrees to borrow, a loan in an amount equal to the

Shortfall Amount which shall be specified on the Trigger Notice and (b) sign and submit all application documents in connection with the giving of such Loan to the Issuer or, as the case may be, the Guarantor (including a Loan Agreement in the Chinese language) as required by applicable laws and regulations of the PRC;

- (ii) submit the Loan Agreement and all other documents as required by the SAFE for verification and registration; and
- (iii) pay to or to the order of the Issuer or, as the case may be, the Guarantor such Shortfall Amount payable in immediately available funds in U.S. dollars to a U.S. bank account in Hong Kong of the Issuer or, as the case may be, the Guarantor designated by the Guarantor or the Issuer (as the case may be).

## **Investment**

In relation to the provision of the Investment upon the receipt of a Trigger Notice, the Company will undertake in the Deed of Undertaking to:

- (i) within 30 Business Days upon the receipt of a written Trigger Notice (a) execute the Investment Agreement with the Issuer or, as the case may be, the Guarantor, and all other application documents (including an Investment Agreement in the Chinese language and in such form as required by applicable laws and regulations) required by applicable laws and regulations of the PRC and (b) file such agreements and/or documents as required by applicable laws and regulations with the relevant Approval Authorities (where applicable) in such sequence and timing as required by applicable laws, regulations and the relevant Approval Authorities, for approval of the Investment;
- (ii) within 20 Business Days after the receipt of the relevant Regulatory Approvals, submit all application documents required by applicable laws and regulations of the PRC to the SAFE for the investment of the Shortfall Amount and the outbound remittance of the Shortfall Amount (if applicable); and
- (iii) procure closing of such Investment to take place on or prior to the 20th Business Day after the date of receipt of the approvals from the SAFE (the “**Investment Closing Date**”) and in any event no later than the date falling 120 days from the date of the relevant Trigger Notice.

The Company will further undertake to and will undertake to procure the Designated Investor to, on Investment Closing Date, pay to or to the order of the Issuer or, as the case may be, the Guarantor the Shortfall Amount payable in immediately available funds in U.S. dollars to such U.S. dollars bank account in Hong Kong of the Issuer or, as the case may be, the Guarantor as may be designated by the Issuer or, as the case may be, the Guarantor.

The performance by the Company of its investment obligations described therein may be subject to obtaining Regulatory Approvals. The Company will undertake to and will undertake to procure the Issuer (or the Guarantor, as the case may be) to, use its reasonable efforts to do all such things and take all such actions as may be necessary to obtaining the Regulatory Approvals as soon as reasonably practicable, to (i) procure the completion of the Investment no later than the date falling 120 days from the date of the Trigger Notice; and (ii) procure the remittance of the sum of the Shortfall Amount to or to the order of the Issuer (or the Guarantor, as the case may be) in accordance with the Deed of Undertaking.

## **Obligation to Acquire Equity Interest**

In relation to the Purchase upon the receipt of a Trigger Notice, the Company will undertake, subject to obtaining all Regulatory Approvals, purchase (either by itself or through a Purchaser) the Equity Interests held by the Guarantor and/or any other subsidiaries of the Company incorporated outside the PRC. Within five business days after the date of the Trigger Notice, the Company shall determine and notify in writing to the Trustee of the Equity Interest to be purchased by the Company or the Purchaser. Furthermore, it shall within 20 business days after the date of the Trigger Notice determine the Purchase Price.

The Company is obliged to determine the Purchase Price in compliance with any applicable PRC laws and regulations. In any event, the Purchase Price shall be no less than the Shortfall Amount.

If the Company is to acquire any Equity Interest relating to a Target Subsidiary which is an Onshore Subsidiary:

- (i) within 30 Business Days after the date of the Trigger Notice, the Company shall, and shall procure each Relevant Transferor to, obtain approval from the requisite number of shareholders of such Target Subsidiary in relation to the Purchase, and to execute, and the Company shall procure the board of directors of each of the companies the Equity Interest in which is subject to the Purchase to execute (where applicable) the relevant Equity Interest Transfer Agreement(s) with the Relevant Transferor(s) and file the same with the MOFCOM and the NDRC for approval of the transfer(s) of the Equity Interest(s);
- (ii) within 20 Business Days after receipt of approval from the MOFCOM, the Company shall submit all application documents required by applicable laws and regulations of the PRC to the competent AIC for the change of AIC registration of the transfer(s) of the Equity Interest(s);
- (iii) as soon as reasonably practicable after receipt of AIC registration from the competent AIC, the Company shall complete the procedures in respect of withholding tax for the Relevant Transferor(s) required by applicable laws and regulations of the PRC with the competent tax authority to obtain the tax clearance certificate from such tax authority;
- (iv) within 20 Business Days after completion of the change of AIC registration and the receipt of the tax clearance certificate, the Company shall submit all application documents required by applicable laws and regulations of the PRC to the SAFE (a) to change the SAFE registration of the companies the Equity Interests in which is or (as the case may be) are subject to the purchase and (b) for the outbound remittance of the Purchase Price outside the PRC; and
- (v) closing shall take place on or prior to the 20th Business Day after receipt of the approvals from the SAFE and all other Regulatory Approvals or, if no Regulatory Approval from any Approval Authority is required, on or prior to the fifth Business Day after the execution of the Equity Interest Transfer Agreement whereupon the Company shall pay to, or procure the relevant Purchaser to pay to, or to the order of the Relevant Transferor(s) the corresponding amount of the Purchase Price in immediately available funds in U.S. dollars to an account designated by the Relevant Transferor(s), which account shall be in the name of either the Issuer or the Guarantor.

If the Company is to acquire any Equity Interest relating to a Target Subsidiary which is an Offshore Subsidiary:

- (i) within 20 Business Days after the date of the Trigger Notice, the Company shall (a) submit a project information report and other required documents to the NDRC (as applicable), and (b) submit the preliminary report and other required documents for overseas mergers and acquisitions, to the MOFCOM and the SAFE;
- (ii) within 20 Business Days after obtaining the confirmation of the NDRC (where applicable), the MOFCOM and the SAFE for the report referred to in (a) above, the Company shall, and shall procure each Relevant Transferor to, obtain approval from the requisite number of shareholders of such Target Subsidiary in relation to the Purchase, and to execute, and the Company shall procure the board of directors of each of the companies the Equity Interest in which is subject to the Purchase to execute an Equity Interest Transfer Agreement and all other application documents required by applicable laws and regulations, and shall file such agreements and/or documents as required by applicable laws and regulations with the NDRC (where applicable), the MOFCOM, the SAFE and authorities of other jurisdiction in charge of the Purchase, for relevant approval or registration of the transfer of the Equity Interests as being the subject of the Purchase; and



- (iii) closing of such purchase shall take place on or prior to the 15th Business Day after the date of receipt of the approvals or registration from the NDRC (where applicable), the MOFCOM, the SAFE and authorities of other jurisdictions in charge of the Purchase as referred to in (b) above and all other Regulatory Approvals or, if no such Regulatory Approval from any Approval Authority is required, on or prior to the fifth Business Day after the date of execution of the Equity Interest Transfer Agreement (the “**Offshore Purchase Closing Date**”), and on the Offshore Purchase Closing Date, the Company shall pay to, or procure the relevant Purchaser to pay to, or to the order of each Relevant Transferor the Purchase Price payable in immediately available funds in U.S. dollars to such account as may be designated by such Relevant Transferor, which shall be an account of either the Issuer or the Guarantor.

The company shall procure the Guarantor or the Issuer (as the case may be) to take all actions necessary for the proceeds received from the Loan, the Investment and/or the Purchase(s) to be applied in and towards the payment as described in the Deed of Undertaking of any outstanding amounts as they fall due under the Deed of Undertaking, the Guarantee of the Notes and the Notes (including any interest accrued but unpaid on the Notes), prior to any other use, disposal or transfer of the proceeds received.

### **General**

The Deed of Undertaking will not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, a guarantee by, or any legal binding obligation of, the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction.

Notwithstanding anything contained in the Deed of Undertaking, if, and to the extent that the Company is required to obtain any Regulatory Approvals in order to comply with its obligations under the Deed of Undertaking, the performance of such obligation shall always be qualified by, and subject to, the Company having obtained such Regulatory Approvals. In this regard, the Company will undertake in the Deed of Undertaking to use all reasonable efforts to obtain such Regulatory Approvals within the time stipulated by the relevant Approval Authorities, if applicable.

The Deed of Undertaking will be governed by and construed in accordance with English law. The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Deed of Undertaking and accordingly any legal action or proceedings arising out of or in connection with the Deed of Undertaking may be brought in such courts.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.*

*Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.*

### PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of the PRC for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “*de facto* management bodies” are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “*de facto* management body” of the Issuer or the Guarantor is within the territory of the PRC, the Issuer or the Guarantor may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer and the Guarantor, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, Noteholders will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer or the Guarantor will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on the income sourced inside the PRC, unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region where the non-resident is established and the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer or the Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer or the Guarantor shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise Noteholder. However, despite the potential withholding of PRC tax by the Issuer or the Guarantor, the Issuer and the Guarantor have agreed to pay additional amounts to Noteholders so that Noteholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-PRC Noteholders, except however, if the Issuer or the Guarantor is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

## **HONG KONG**

### **Withholding tax**

No withholding tax is payable in Hong Kong in respect of payments of principal (including any premium payable on redemption of the Notes) or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

### **Profits tax**

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) Interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (b) Interest on the Notes is derived from Hong Kong and is received by or accrues to a person other than a corporation (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business;
- (c) Interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap.112) of the laws of Hong Kong) by way of interest which arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax.

Gains or profits derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sums are revenue in nature and have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

### **Stamp duty**

No Hong Kong stamp duty will be chargeable upon the issue or transfer of the Notes (for so long as the register of Noteholders is maintained outside Hong Kong).

### **EU directive on the taxation of savings income**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

## **FATCA**

A tax for withholding may be payable under FATCA if an investor or custodian of the Notes is unable to receive payments free of withholding. Whilst the Notes are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, the Guarantor, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

## **SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN PRC GAAP AND IFRS**

The Group's Financial Statements included in this Offering Circular have been prepared and presented in accordance with PRC GAAP, except for certain disclosure requirements under PRC GAAP. For more information, see Note III "*Basis of Preparation*" to the Group's Financial Statements. PRC GAAP are substantially in line with IFRS, except for certain modifications which reflect the PRC's unique circumstances and environment. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Group. The Group is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure between PRC GAAP and IFRS and no attempt has been made to quantify such differences. Had any such quantification or reconciliation been undertaken by the Group, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future.

Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and IFRS is complete. In making an investment decision, each investor must rely upon its own examination of the Group, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisers for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

### **REVERSAL OF AN IMPAIRMENT LOSS**

Under PRC GAAP, once an impairment loss is recognised for a long term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period. Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

### **RELATED PARTY DISCLOSURES**

Under PRC GAAP, government-related entities are not treated as related parties. Under IFRS, government-related entities are still treated as related parties.

## SUBSCRIPTION AND SALE

The Issuer, the Guarantor and the Company have entered into a subscription agreement with the Joint Lead Managers with effect from 9 July 2014 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer, the Guarantor and the Company have undertaken, among other things, that the Notes will be issued on 17 July 2014 (the “**Closing Date**”), and the Joint Lead Managers have severally and not jointly agreed with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the Notes at an issue price of 99.636 per cent. (in the case of the 2017 Notes) and an issue price of 99.655 per cent. (in the case of the 2019 Notes) of their respective principal amount in the amount set forth below:

	Principal Amount of 2017 Notes	Principal Amount of 2019 Notes
	(U.S.\$)	
Credit Suisse Securities (Europe) Limited .....	60,000,000	240,000,000
Standard Chartered Bank .....	60,000,000	240,000,000
Wing Lung Bank Limited .....	60,000,000	240,000,000
Industrial and Commercial Bank of China (Asia) Limited .....	60,000,000	240,000,000
ABCI Capital Limited.....	9,600,000	38,400,000
CCB International Capital Limited.....	8,400,000	33,600,000
China Merchants Securities (HK) Co., Limited .....	8,400,000	33,600,000
Citigroup Global Markets Limited .....	8,400,000	33,600,000
DBS Bank Ltd. ....	8,400,000	33,600,000
Jefferies Hong Kong Limited .....	8,400,000	33,600,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch.....	8,400,000	33,600,000
<b>Total</b> .....	<u>300,000,000</u>	<u>1,200,000,000</u>

The Subscription Agreement provides that the Issuer (failing which, the Guarantor and failing which, the Company) has agreed to pay the Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes, and the Issuer, the Guarantor and the Company will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer, the Guarantor, the Company or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor, the Company or any member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers and their respective subsidiaries affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer, the Guarantor, the Company and/or the Group for which they received or will receive customary fees and expenses.

The Joint Lead Managers and their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. References herein to the Notes being offered should be read as including any offering of the Notes to the Joint Lead Managers and/or their affiliates acting in such capacity. In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt



and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

No action has been or will be taken that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction, except in circumstances which will result in compliance with any applicable laws and regulations and will not, save as disclosed in this Offering Circular, impose any obligations on the Issuer, the Guarantor, the Company or the Joint Lead Managers.

The distribution of this Offering Circular, or any offering material, and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular, or any offering material, are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

## **GENERAL**

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. The Group will have no responsibility for, and each Joint Lead Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. None of the Joint Lead Managers is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Notes, other than as contained in this Offering Circular or any amendment or supplement thereto.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of that Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

## **UNITED STATES**

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer, the Guarantor and the Company that it has not offered or sold, and will not offer or sell, any notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of the Joint Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

## **UNITED KINGDOM**

Each of the Joint Lead Managers has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer, the Guarantor or the Company; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## **HONG KONG**

Each of the Joint Lead Managers has represented, warranted and undertaken that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“SFO”) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

## **PRC**

Each of the Joint Lead Managers has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

## **SINGAPORE**

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 274(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;

- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **JAPAN**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “**Financial Instruments and Exchange Act**”) and, accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **BRITISH VIRGIN ISLANDS**

Each Joint Lead Manager has represented, warranted and agreed that it has not made and will not make any invitation to the public in the British Virgin Islands or a natural person who is a British Virgin Islands resident or citizen to offer or sell the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law.

## GENERAL INFORMATION

1. **Clearing Systems:** The 2017 Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 108608170 and the International Securities Identification Number for the 2017 Notes is XS1086081707. The 2019 Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 108829281 and the International Securities Identification Number for the 2019 Notes is XS1088292815.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes, the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Undertaking. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer passed on 3 July 2014. The Guarantor has obtained all consents, approvals and authorisations in connection with the giving of the Guarantee of the Notes and the performance of its obligations under the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Undertaking. The giving of the Guarantee of the Notes was authorised by resolutions of the Guarantor passed on 3 July 2014. The Company has obtained all necessary consents, approvals and authorisations in connection with the entry into of the Keepwell Deed and the Deed of Undertaking and the performance of its obligations under the Trust Deed and the Agency Agreement. The entry into of the Keepwell Deed and the Deed of Undertaking was authorised by resolutions of the Company passed on 4 June 2014.
3. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no material adverse change since 31 December 2013 (in the case of the Guarantor, the Company and the Group) or the date of incorporation (in the case of the Issuer) in the financial or trading position, prospects or results of operations of the Issuer, the Guarantor, the Company or the Group.
4. **Litigation:** None of the Issuer, the Guarantor, the Company or any member of the Group is involved in any litigation or arbitration proceedings, which the Issuer, the Guarantor, the Company or the Group, as the case may be, believes are material in the context of the Notes and the giving of the Guarantee of the Notes, the Keepwell Deed and the Deed of Undertaking and, so far as the Issuer, the Guarantor or the Company is aware, no such litigation or arbitration proceedings are pending or threatened.
5. **Listing of Notes:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors (as defined in the SFO) only and such permission is expected to become effective on or about 18 July 2014.
6. **Available Documents:** As long as any Note is outstanding, copies of the following documents will be available for inspection and, in the case of the documents referred to in paragraphs (b) and (c) below, copies may be obtained during normal business hours at the specified office of the Guarantor at Unit 1504-1506, 15F, Office Tower Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong:
  - (a) constitutional documents (or equivalent) of the Issuer, the Guarantor and the Company;
  - (b) copies of the Group's Financial Statements;
  - (c) copies of the Guarantor's Financial Statements;
  - (d) the Agency Agreement;
  - (e) the Trust Deed;
  - (f) the Keepwell Deed; and
  - (g) the Deed of Undertaking.
7. **Independent Auditors:** The Group's Financial Statements and the Guarantor's Financial Statements, which are included elsewhere in this Offering Circular, have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, the independent auditors of the Group.

The independent auditors of the Group have given and not withdrawn their written consent to the reproduction of their audit reports on the Group's Financial Statements and the Guarantor's Financial Statements dated 28 April 2014 and 10 April 2014, respectively, in this Offering Circular and with references to Deloitte Touche Tohmatsu, Certified Public Accountants in the form and context in which they appear. Their consent should not be construed as in any way updating or refreshing the aforementioned audit reports.

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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED

華融(香港)國際控股有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Huarong (HK) International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 32, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 2 January 2013 (date of incorporation) to 31 December 2013, and a summary of significant accounting policies and other explanatory information.

#### **Directors' Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED - continued

華融(香港)國際控股有限公司

(incorporated in Hong Kong with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the period from 2 January 2013 (date of incorporation) to 31 December 2013 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

10 April 2014

HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED  
華融(香港)國際控股有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD FROM 2 JANUARY 2013 (DATE OF INCORPORATION)  
TO 31 DECEMBER 2013

	<u>NOTES</u>	HK\$
Turnover	8	94,772,982
Investment income	9	9,302,240
Bank interest income		145,135
Total income		104,220,357
Operating expenses		(51,738,470)
Finance cost		(4,357,047)
Profit before taxation	10	48,124,840
Income tax expense	11	(8,683,189)
Profit for the period		39,441,651
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations		83,605
Other comprehensive income for the period (net of tax)		83,605
Total comprehensive income for the period		39,525,256

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
**華融(香港)國際控股有限公司**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2013**

	<u>NOTES</u>	<u>HK\$</u>
Non-current assets		
Property and equipment	12	2,817,369
Loans and advances	13	429,493,600
Financial asset held under resale agreement	14	252,000,000
Deposits and other receivables		1,606,670
		<u>685,917,639</u>
Current assets		
Loans and advances	13	479,000,000
Other receivables		670,781
Interest receivable		4,671,401
Held for trading investments	17	259,299,940
Bank balances and cash	16	81,485,023
		<u>825,127,145</u>
Current liabilities		
Bank borrowings	18	1,380,750,000
Income tax payable		8,704,843
Interest payable		1,555,489
Other payables		15,086,042
		<u>1,406,096,374</u>
Net current liabilities		<u>(580,969,229)</u>
Total assets less current liabilities		<u>104,948,410</u>
Equity and reserves		
Share capital	19	50,000,000
Retained profit		39,441,651
Exchange reserves		83,605
Total equity		<u>89,525,256</u>
Non-current liabilities		
Amounts due to ultimate holding company		1,808,185
Amounts due to immediate holding company		348,135
Amounts due to a fellow subsidiary		998,061
Other payables		12,268,773
		<u>15,423,154</u>
Total equity and non-current liabilities		<u>104,948,410</u>

The consolidated financial statements on pages 5 to 32 were approved and authorised for issue by the Board of Directors on 10 April 2014 and are signed on its behalf by:

\_\_\_\_\_  
DIRECTOR

\_\_\_\_\_  
DIRECTOR

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
**華融(香港)國際控股有限公司**

**STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2013**

	<u>NOTES</u>	<u>HK\$</u>
Non-current assets		
Property and equipment	12	2,817,369
Investments in subsidiaries	15	2,540,016
Loans and advances	13	429,493,600
Amounts due from subsidiaries		252,020,281
Deposits and other receivables		1,606,670
		<u>688,477,936</u>
Current assets		
Loans and advances	13	479,000,000
Amounts due from a subsidiary		252,527,801
Other receivables		670,781
Interest receivable		4,671,401
Bank balances and cash	16	58,930,455
		<u>795,800,438</u>
Current liabilities		
Bank borrowings	18	1,380,750,000
Amounts due to a subsidiary		628,136
Income tax payable		3,017,093
Interest payable		1,555,489
Other payables		15,059,345
		<u>1,401,010,063</u>
Net current liabilities		<u>(605,209,625)</u>
Total assets less current liabilities		<u>83,268,311</u>
Equity and reserves		
Share capital	19	50,000,000
Retained profit		15,268,319
Total equity		<u>65,268,319</u>
Non-current liabilities		
Amounts due to ultimate holding company		1,808,185
Amounts due to immediate holding company		348,135
Amounts due to a fellow subsidiary		998,061
Amounts due to subsidiaries		2,576,838
Other payables		12,268,773
		<u>17,999,992</u>
Total equity and non-current liabilities		<u>83,268,311</u>

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DIRECTOR

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DIRECTOR

HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED  
華融(香港)國際控股有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD FROM 2 JANUARY 2013 (DATE OF INCORPORATION)  
TO 31 DECEMBER 2013

	<u>Share capital</u> HK\$	<u>Exchange reserves</u> HK\$	<u>Retained profit</u> HK\$	<u>Total</u> HK\$
At 2 January 2013 (date of incorporation)	5,000,000	-	-	5,000,000
Profit for the period	-	-	39,441,651	39,441,651
Exchange differences arising on translating foreign operations	-	83,605	-	83,605
Total comprehensive income for the period	-	83,605	39,441,651	39,525,256
Shares issued	45,000,000	-	-	45,000,000
At 31 December 2013	50,000,000	83,605	39,441,651	89,525,256

HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED

華融(香港)國際控股有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM 2 JANUARY 2013 (DATE OF INCORPORATION)  
TO 31 DECEMBER 2013

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	HK\$
OPERATING ACTIVITIES	
Profit before taxation	48,124,840
Interest income	(9,253,181)
Net gain on financial instruments at fair value through profit or loss	(9,302,240)
Depreciation	601,937
Net exchange loss	105,259
Interest expense	4,357,047
	<hr/>
Operating cash flows before working capital changes	34,633,662
Increase in accounts receivable and other assets	(2,277,451)
Increase in other payables and amounts due to group companies	30,509,196
	<hr/>
Net cash from operating activities	62,865,407
INVESTING ACTIVITIES	
Interest received	4,581,780
Purchase of property and equipment	(3,419,306)
Loans and advances granted	(908,493,600)
Purchase of held for trading investments	(249,997,700)
Investment in financial asset held under resale agreement	(252,000,000)
	<hr/>
Net cash used in investing activities	(1,409,328,826)
FINANCING ACTIVITIES	
Proceeds from bank loans raised	1,380,750,000
Proceeds from share issue	50,000,000
Interest paid	(2,801,558)
	<hr/>
Net cash from financing activities	1,427,948,442
	<hr/>
Net increase in cash and cash equivalents	81,485,023
Cash and cash equivalents at 2 January 2013 (Date of incorporation)	-
	<hr/>
Cash and cash equivalents at 31 December	81,485,023
	<hr/>
Bank balances and cash	81,485,023
	<hr/>



**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
**華融(香港)國際控股有限公司**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 2 JANUARY 2013 (DATE OF INCORPORATION)**  
**TO 31 DECEMBER 2013**

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**1. GENERAL**

The Company is a private limited company incorporated in Hong Kong. Its immediate holding company is Huarong Zhiyuan Investment & Management Co., Ltd., a company incorporated in the People's Republic of China. Its ultimate holding company is China Huarong Asset Management Co., Ltd., a company incorporated in the People's Republic of China.

The principal activity of the Company is the investment holding and the provision of consulting services, and the principal activities of its subsidiaries are disclosed in Note 15.

The address of the registered office and principal place of business of the Company is 1504-1506, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

**2. BASIS OF PREPARATION**

The financial statements have been prepared on a going concern basis because the ultimate holding company, China Huarong Asset Management Co., Ltd, has provided financial support to the Company in the form of financial guarantee being issued in respect of the Company's bank borrowings amounting to HK\$1,120,750,000 as at 31 December 2013.

**3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 - 2012 cycle <sup>2</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 - 2013 cycle <sup>2</sup>
HKFRS 9	Financial instruments <sup>3</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>1</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

<sup>3</sup> Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

**HKFRS 9 *Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Except for the above, the directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Revenue recognition

Arrangement fee are recognised when the services have been rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

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

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

**Financial assets**

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

Interest income is recognised on an effective interest basis.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Financial assets at FVTPL* - continued

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including loans and advances, financial assets held under resale agreement, bank balances, deposits and other receivables are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**Impairment of financial assets**

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.



4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Impairment of financial assets - continued**

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities and equity instruments**

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

*Equity instruments*

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

*Other financial liabilities*

Other financial liabilities including bank borrowings, other payables and amounts due to group companies are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Derecognition**

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Property and equipment

Property and equipment are stated in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out as follows.

*Impairment allowances on loans and advances*

In determining individual impairment allowances, the Group periodically reviews its loans and advances to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in profit or loss, management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation and the net realisable value of the underlying collateral or guarantees in favour of the Group. Management reviews the methodology and assumptions used regularly to ensure the appropriateness of the impairment allowance, if any.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Deferred taxation in respect of temporary differences attributed to the accumulated profits of the PRC subsidiary*

The directors have determined that the Company is able to control the timing of the reversal of the temporary differences attributable to accumulated profits of the PRC subsidiary amounting to HK\$16,998,289 and that it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, deferred taxation relating to such temporary differences is not provided.

6. CAPITAL RISK MANAGEMENT

The directors of the Company manage the capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of capital and reserves. The directors review the capital structure by considering the cost of capital and the risks associated. In view of this, the Company will balance its overall capital structure through the payment of dividends and issuance of share capital. The Company's overall strategy remains unchanged throughout the period.

7. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

7. FINANCIAL INSTRUMENTS - continued

The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risks.

Categories of financial instruments

	<u>The Group</u> HK\$	<u>The Company</u> HK\$
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	1,248,927,475	1,478,920,989
Fair value through profit or loss		
- held for trading	259,299,940	-
	<u>1,508,227,415</u>	<u>1,478,920,989</u>
<b>Financial liabilities</b>		
Amortised cost	<u>1,412,814,685</u>	<u>1,415,992,962</u>

Financial risk management objectives and policies

**Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. Positions are managed and monitored using sensitivity analyses.

**Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flow risks.

As at 31 December 2013, the Group's interest bearing assets and liabilities includes balances in savings accounts with variable interest rate, fixed deposits with fixed interest rate, loans and receivables with fixed interest rate and bank borrowings with variable interest rate.

For the year ended 31 December 2013, if the market interest rates had been 50 basis point higher/lower with other variables held constant, profit after taxation for the period would have been approximately HK\$5,513,853 lower or HK\$5,681,317 higher respectively.

Assets and liabilities bearing interest below 50 basis points are excluded from 50 basis points downward movement.



**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
**華融(香港)國際控股有限公司**

7. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Currency risk**

The Group undertakes certain transactions denominated in foreign currencies and, hence exposures to exchange rate fluctuations arise. The following tables indicate the concentration of currency risk at the end of each reporting periods:

	RMB	HKD	USD	Total
<u>The Group</u>				
<b>Financial assets</b>				
Fair value through profit or loss				
- held for trading	-	259,299,940	-	259,299,940
Loans and receivables (including cash and cash equivalents)	22,285,162	1,099,372,069	127,270,244	1,248,927,475
Total financial assets	22,285,162	1,358,672,009	127,270,244	1,508,227,415
<b>Financial liabilities</b>				
Amortised cost	25,859,006	1,386,607,544	348,135	1,412,814,685
Total financial liabilities	25,859,006	1,386,607,544	348,135	1,412,814,685
Net position - total financial assets and liabilities	(3,573,844)	(27,935,535)	126,922,109	95,412,730
<u>The Company</u>				
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	2,335,002	1,349,315,743	127,270,244	1,478,920,989
Total financial assets	2,335,002	1,349,315,743	127,270,244	1,478,920,989
<b>Financial liabilities</b>				
Amortised cost	29,037,267	1,386,607,544	348,151	1,415,992,962
Total financial liabilities	29,037,267	1,386,607,544	348,151	1,415,992,962
Net position - total financial assets and liabilities	(26,702,265)	(37,291,801)	126,922,093	62,928,027

7. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Currency risk** - continued

*Foreign currency sensitivity*

The Group carries out its activities mainly in its functional currency (i.e. Hong Kong dollars), Renminbi and United States dollars ("US\$"). As Hong Kong dollars are pegged to US dollars, there is no significant exposure to foreign currency risk.

The following table details the Group's sensitivity to a 10 percent change in Hong Kong dollars against Renminbi. The respective percentages are the rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's exposure to foreign currency risk at the end of the reporting period have been determined based on the foreign exchange rates adjusted at the end of the reporting period.

	Change in currency rate Renminbi	
	Appreciate <u>+10%</u>	Depreciate <u>-10%</u>
<u>The Group</u>		
<u>2013</u>		
Profit after taxation	(1,962,900)	1,962,900
Other equity	<u>1,993,394</u>	<u>(1,993,394)</u>
<u>The Company</u>		
<u>2013</u>		
Profit after taxation	<u>(2,229,639)</u>	<u>2,229,639</u>

**Credit risk**

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual loan at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bank balances are placed in two authorised institutions and the directors consider the credit risk for such is minimal.

7. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk** - continued

Credit quality of loans and advances and financial assets held under resale agreement are summarised as follows:

	The Group <u>2013</u> HK\$	The Company <u>2013</u> HK\$
Neither past due nor impaired	<u>1,160,493,600</u>	<u>908,493,600</u>

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. All loans and advances are guaranteed or supported by collaterals. The principal collateral types for loans and receivables are:

- Personal guarantees;
- Shareholding in other companies; or
- Convertible bonds.

In addition, in order to minimise the credit losses, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

As at 31 December 2013, the total amount of loans and advances and financial assets held under resale agreement are consist of six counterparties. The top three counterparties amounting to HK\$748,700,000 approximate to 64.52% of the total loans and advances and financial assets held under resale agreement.

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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**7. FINANCIAL INSTRUMENTS - continued**

**Financial risk management objectives and policies - continued**

**Liquidity risk - continued**

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	On demand or less than 1 month HK\$	1 to 3 months HK\$	3 months to 1 year HK\$	1 to 5 years HK\$	>5 years HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 31.12.2013 HK\$
<b>THE GROUP</b>							
Non-derivative financial liabilities							
Other payables	4,422,526	251,794	10,411,722	11,722,641	546,132	27,354,815	27,354,815
Amounts due to ultimate holding company	-	-	-	1,808,185	-	1,808,185	1,808,185
Amounts due to immediate holding company	-	-	-	-	348,135	348,135	348,135
Amounts due to a fellow subsidiary	-	-	-	998,061	-	998,061	998,061
Borrowings - variable rate	1,380,750,000	-	-	-	-	1,380,750,000	1,380,750,000
Interest payable	1,555,489	-	-	-	-	1,555,489	1,555,489
<b>THE COMPANY</b>							
Non-derivative financial liabilities							
Other payables	4,396,029	251,594	10,411,722	11,722,641	546,132	27,328,118	27,328,118
Amounts due to ultimate holding company	-	-	-	1,808,185	-	1,808,185	1,808,185
Amounts due to immediate holding company	-	-	-	-	348,135	348,135	348,135
Amounts due to a fellow subsidiary	-	-	-	998,061	-	998,061	998,061
Amounts due to subsidiaries	-	-	628,136	2,576,838	-	3,204,974	3,204,974
Borrowings - variable rate	1,380,750,000	-	-	-	-	1,380,750,000	1,380,750,000
Interest payable	1,555,489	-	-	-	-	1,555,489	1,555,489

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2013, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$1,380,750,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid one to two years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$1,427,274,640.

**Price risk**

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as held for trading, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

*Price sensitivity*

	2013	
	+10% HK\$'000	-10% HK\$'000
<b>The Group</b>		
Profit after taxation	25,929,994	(25,929,994)
<b>The Company</b>		
Profit after taxation	-	-

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
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7. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of this financial asset is determined (in particular, the valuation technique and inputs used).

<u>Financial assets</u>	<u>Fair value as at 31.12.2013</u>	<u>Fair value hierarchy</u>	<u>Valuation technique(s) and key input(s)</u>
Fair value through profit or loss - held for trading	Listed equity securities: - Real estate operational service industry - HK\$259,299,940	Level 1	Quoted bid prices in an active market.

Fair value hierarchy as at 31 December 2013

	<u>Level 1</u>	<u>The Group</u>		<u>Total</u>
	<u>HK\$</u>	<u>Level 2</u>	<u>Level 3</u>	<u>HK\$</u>
		<u>HK\$</u>	<u>HK\$</u>	
<b>Financial assets</b>				
Held for trading-listed equity securities	259,299,940	-	-	259,299,940

There were no transfers of financial instruments between Level 1 and 2 during the period.

The Company has no financial assets or financial liabilities which is measured at fair value.

As at 31 December 2013, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values, and they are under Level 2 fair value hierarchy.

8. TURNOVER

	<u>The Group</u>
	<u>HK\$</u>
Turnover	
Arrangement fee income	85,664,936
Interest income from loans and advances	9,108,046
	<u>94,772,982</u>

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
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9. INVESTMENT INCOME

	<u>The Group</u> HK\$
Net gains on financial instruments at fair value through profit or loss - held for trading	9,302,240

10. PROFIT BEFORE TAXATION

	<u>The Group</u> HK\$
Profit before taxation has been arrived after charging:	
Auditor's remuneration	101,368
Directors' emoluments	
Fees	1,211,723
Salary and other benefits	3,111,221
Contributions to retirement benefit schemes	16,250
Operating lease expenses - staff quarters	466,000
Staff cost	
Salaries and other benefits	29,560,201
Contributions to retirement benefit schemes	73,262
Operating lease expenses - staff quarters	788,148
Depreciation	601,937
Net exchange loss	84,672
Operating lease expenses - office premises	2,849,483
Interest on bank borrowings wholly repayable within five years	4,357,047

11. TAXATION

Taxation for the period can be reconciled to profit before taxation per consolidated statement of profit or loss and comprehensive income as follows:

	HK\$
Profit before taxation	48,124,840
Taxation at Hong Kong Profits Tax rate of 16.5%	7,940,599
Tax effect of income not taxable for tax purpose	(1,183,882)
Effect of different tax rate of subsidiaries operating in other jurisdictions	1,926,472
Taxation for the period	8,683,189

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
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**12. PROPERTY AND EQUIPMENT**

The Group and the Company

	<u>Leasehold improvements</u> HK\$	<u>Electronic equipment</u> HK\$	<u>Motor vehicles</u> HK\$	<u>Furniture, fixtures and equipment</u> HK\$	<u>Total</u> HK\$
<b>COST</b>					
Balance as at 2 January 2013 (date of incorporation)	-	-	-	-	-
Additions	1,698,915	359,695	746,647	614,049	3,419,306
Balance as at 31 December 2013	1,698,915	359,695	746,647	614,049	3,419,306
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 2 January 2013 (date of incorporation)	-	-	-	-	-
Provided for the period	369,192	61,116	99,553	72,076	601,937
Balance as at 31 December 2013	369,192	61,116	99,553	72,076	601,937
<b>NET BOOK VALUE</b>					
As at 31 December 2013	1,329,723	298,579	647,094	541,973	2,817,369

The above items of leasehold improvements, electronic equipment, motor vehicles and furniture, fixtures and equipment are depreciated on a straight-line basis at the following estimated useful lives:

Leasehold improvements	3 years
Electronic equipment	3 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

**13. LOANS AND ADVANCES**

The Group and the Company

	HK\$
Non-current	429,493,600
Current	479,000,000
	<u>908,493,600</u>

No loans and advances of the Group and the Company are past due as at 31 December 2013.



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14. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENT

The financial asset held by the Group under the resale agreement is a Hong Kong listed convertible bond issued by a Hong Kong listed company with nominal value of HK\$280,000,000.

15. INVESTMENTS IN SUBSIDIARIES

HK\$

Unlisted shares, at cost 2,540,016

Details of the principal subsidiaries as at 31 December 2013 are as follows:

<u>Name of company</u>	<u>Placement of incorporation</u>	<u>Issued and fully paid ordinary share capital</u>	<u>Percentage of issued share capital directly held</u>	<u>Principal activities</u>
Driven Innovation Limited	British Virgin Islands	US\$1	100%	Investment holding
Grand Nation Global Limited	British Virgin Islands	US\$1	100%	Investment holding
深圳華融致誠投資諮詢有限公司	People's Republic of China	RMB2,000,000	100%	Consulting services

16. BANK BALANCES AND CASH

	<u>The Group</u> HK\$	<u>The Company</u> HK\$
Cash on hand	17,809	13,996
Bank balances	81,467,214	58,916,459
	<u>81,485,023</u>	<u>58,930,455</u>

17. HELD FOR TRADING INVESTMENTS

	Financial assets at fair value through profit or loss held for trading	
	<u>The Group</u> HK\$	<u>The Company</u> HK\$
Equity securities: Listed in Hong Kong	<u>259,299,940</u>	<u>-</u>

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
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**18. BANK BORROWINGS**

The Group and the Company

	HK\$
Secured	1,120,750,000
Unsecured	260,000,000
	<u>1,380,750,000</u>
Carrying amount repayable*:	
Within one year	474,000,000
More than one year, but not exceeding two years	<u>906,750,000</u>

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

The bank borrowings carry interest at HIBOR plus 1.65% to 3.50% per annum and are repayable on demand.

**19. SHARE CAPITAL**

The Group and the Company

	HK\$
Authorised, issued and fully paid:	
50,000,000 ordinary shares of HK\$1 each	<u>50,000,000</u>

The Company was incorporated with an authorised share capital of HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1 each. On the date of incorporation, 5,000,000 ordinary share of HK\$1 was issued for cash at par to the subscriber, Huarong Zhiyuan Investment & Management Co., Ltd, to provide the initial capital to the Company. The Company issued 45,000,000 ordinary shares of HK\$1 each, for consideration of HK\$1 per share, and the allocation was made on 26 April, 2013 to the existing shareholders. The new shares rank pari passu with the existing shares in all respects.

**20. RELATED PARTY TRANSACTIONS**

During the period, the Group entered into the following transactions with related parties:

	<u>The Group</u> HK\$	<u>The Company</u> HK\$
Operating expenses (Note a)	<u>1,083,842</u>	<u>1,083,842</u>

Note:

- (a) Amount being the commitment fee paid to the ultimate holding company for being the guarantor of the Company in bank borrowings.

**HUARONG (HK) INTERNATIONAL HOLDINGS LIMITED**  
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**20. RELATED PARTY TRANSACTIONS - continued**

The following balances were outstanding at the end of the reporting period:

	<u>The Group</u> HK\$	<u>The Company</u> HK\$
Amounts due to the immediate holding company (Note 1)	348,135	348,135
Amounts due to the ultimate holding company (Note 1)	1,808,185	1,808,185
Amounts due to a fellow subsidiary (Note 1)	998,061	998,061
Amounts due to subsidiaries (Note 2)	-	3,204,974
Amounts due from subsidiaries	-	504,548,082
	<u>          </u>	<u>          </u>

Notes:

- (1) All amounts due to group companies are interest-free, unsecured and repayable on demand. However, the fellow subsidiary, immediate and ultimate holding companies have confirmed their intention not to call or make demand for repayment on any of the amount due from the Group within 12 months from the end of the reporting period.
- (2) All amounts due to/from subsidiaries are interest-free, unsecured and repayable on demand. Included in amounts due to subsidiaries, the management of the Group confirms that HK\$628,136 will be repayable within 1 year. However, the subsidiaries have confirmed their intention not to call or make demand for repayment on the remaining portion of the amounts due to subsidiaries within 12 months from the end of the reporting period.
- (3) The Company's bank borrowings amounting to HK\$1,120,750,000 as at 31 December 2013 were guaranteed by the Company's ultimate holding company.

**Compensation of key management personnel**

Key management personnel of the Group includes directors only. The remuneration of directors is disclosed in note 10 to the consolidated financial statements.

**21. OPERATING LEASES**

The Group and the Company

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

	HK\$
Within 1 year	3,807,094
In second to fifth years inclusive	103,125
	<u>3,910,219</u>

Operating lease payments represent rentals and building management fees payable by the Group and the Company for office premises and staff quarters. Leases are negotiated for an average term of 1 to 2 years.

22. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$15,268,319.

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## **AUDITOR'S REPORT**

De Shi Jing Bao (Shen) Zi (14) No. P0182

### **TO THE SHAREHOLDERS OF CHINA HUARONG ASSET MANAGEMENT CO. LTD.**

We have audited the attached financial statements of China Huarong Asset Management Co. Ltd. (the "Company"), which comprise the company and consolidated statements of financial position as at 31 December 2013, and the company and consolidated statements of income, company and consolidated statements of changes in equity and company and consolidated statements of cash flows for the year then ended, and the notes to the financial statements.

#### **1. Management's Responsibility for the Financial Statements**

The Management of the Company is responsible for the preparation of financial statement in accordance with the basis described in Note III of the financial statements, and for the design, execution and maintenance of such internal control as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **2. Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants in China. Those standards require that we comply with ethical requirements stated in the standards and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

These financial statements and auditor's report have been issued in Chinese. The English translation is prepared for reference only. If there is any conflict between the Chinese and the English versions, the Chinese version shall prevail.

### 3. Opinion

In our opinion, the financial statements of the Company have been properly prepared in accordance with the basis of preparation described in Note III of the financial statements in all material respects.

### 4. Basis of preparation

We hereby remind the users of the financial statements to note the description of the basis of preparation in Note III of the financial statements.

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Liu, Minghua

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Zhao, Yao

**Deloitte Touche Tohmatsu Certified Public Accountants LLP (Beijing Branch)**

Certified Public Accountant

China

28 April 2014

These financial statements and auditor's report have been issued in Chinese. The English translation is prepared for reference only. If there is any conflict between the Chinese and the English versions, the Chinese version shall prevail.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

COMPANY AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2013

(RMB '000 unless specified otherwise)

<u>ASSETS</u>	<u>NOTE 9</u>	<u>THE GROUP</u>		<u>THE COMPANY</u>	
		<u>2013</u> <u>31 December</u>	<u>2012</u> <u>31 December</u> (Restated)	<u>2013</u> <u>31 December</u>	<u>2012</u> <u>31 December</u> (Restated)
Cash and bank balances	1	23,547,015	17,137,381	13,141,266	10,386,447
Deposits in the Central Bank	2	20,846,116	16,650,329	1,222	1,211
Placements with banks and financial institutions	3	11,006,425	4,276,009	3,800,000	-
Held-for-trading financial assets	4	20,673,942	18,963,826	8,134,164	3,126,253
Accounts receivable	5	7,229,680	3,109,898	1,436,540	743,875
Interest receivable	6	979,917	785,789	27,590	-
Financial assets held under resale agreements	7	40,463,684	39,784,932	544,000	138,600
Loans and advances	8	46,657,111	37,533,850	-	-
Available-for-sale financial assets	9	28,111,527	28,266,575	20,896,321	21,944,340
Held-to-maturity investments	10	12,623,756	9,741,939	-	-
Debts classified as receivables	11	124,315,504	74,921,669	91,770,962	59,397,745
Finance lease receivables	12	55,167,739	47,268,142	-	-
Long-term equity investments	13	4,097,828	4,151,422	19,168,796	18,614,323
Investment properties	14	627,992	650,831	394,084	407,505
Fixed assets	15	4,128,953	3,708,022	1,359,758	1,441,437
Intangible assets	16	231,818	154,129	21,317	14,704
Goodwill		18,063	18,063	-	-
Deferred income tax assets	17	2,330,672	915,101	1,895,450	722,737
Other assets	18	5,603,479	6,995,681	183,055	67,993
Total assets		<u>408,661,221</u>	<u>315,033,588</u>	<u>162,774,525</u>	<u>117,007,170</u>



CHINA HUARONG ASSET MANAGEMENT CO. LTD.

**COMPANY AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AT 31 DECEMBER 2013**

(RMB '000 unless specified otherwise)

<u>LIABILITIES</u>	<u>NOTE 9</u>	<u>THE GROUP</u>		<u>THE COMPANY</u>	
		<u>2013</u> <u>31 December</u>	<u>2012</u> <u>31 December</u> (Restated)	<u>2013</u> <u>31 December</u>	<u>2012</u> <u>31 December</u> (Restated)
Short-term borrowings	20	57,167,246	54,346,982	34,920,000	38,118,000
Borrowings from the Central Bank		52,300	40,000	-	-
Placements from banks					
and financial institutions	21	21,845,951	11,889,318	4,000,000	-
Accounts payable	22	33,406,545	36,447,272	17,897,603	24,289,398
Financial assets sold					
under repurchase agreements	23	33,988,637	48,145,992	-	-
Due to customers	24	87,885,938	70,051,836	-	-
Staff costs payable	25	2,318,156	1,433,446	931,880	687,732
Tax payable	26	2,479,879	2,415,197	1,941,435	1,939,162
Interest payable	27	1,680,597	941,587	425,684	123,193
Provisions		177,996	101,744	177,996	101,744
Bonds issuance	28	17,886,181	3,487,000	12,000,000	-
Long-term borrowings	29	78,963,897	35,412,950	52,960,000	19,610,000
Deferred income tax liabilities	17	454,694	55,905	293,943	-
Other liabilities	30	17,819,049	7,692,885	-	-
Total liabilities		356,127,066	272,462,114	125,548,541	84,869,229
Shareholders' equity					
Share capital	31	25,835,870	25,835,870	25,835,870	25,835,870
Capital reserves	32	1,207,091	810,934	7,502	(480,017)
Surplus reserves	33	1,000,912	416,046	1,000,912	416,046
General reserves	34	1,546,510	-	1,546,510	-
Retained earnings	35	12,377,489	7,113,233	8,835,190	6,366,042
Exchange difference from					
foreign currency translation		(1,286)	-	-	-
Total shareholders' equity attributable to		41,966,586	34,176,083	37,225,984	32,137,941
parent company					
Minority interests		10,567,569	8,395,391	-	-
Total shareholders' equity		52,534,155	42,571,474	37,225,984	32,137,941
Total liabilities and shareholders' equity		408,661,221	315,033,588	162,774,525	117,007,170

The notes form an integral part of these financial statements.

The financial statements on pages 3 to 73 were authorised for issue by the following persons-in-charge:

\_\_\_\_\_  
Legal Representative

\_\_\_\_\_  
Chief Accountant

\_\_\_\_\_  
Head of Accounting  
Department

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These financial statements and auditor's report have been issued in Chinese. The English translation is prepared for reference only. If there is any conflict between the Chinese and the English versions, the Chinese version shall prevail.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

**COMPANY AND CONSOLIDATED STATEMENTS OF INCOME  
TO 31 DECEMBER 2013**

(RMB '000 unless specified otherwise)

	NOTE 9	THE GROUP		THE COMPANY	
		2013	2012 (Restated)	2013	2012 (Restated)
1. Operating income					
(i) Net income from principal business	36	17,554,479	10,232,077	13,103,688	6,361,599
(ii) Net income from intermediary business	37	5,896,795	4,724,399	3,432,185	3,368,466
(iii) Investment income	38	5,619,947	4,296,645	2,452,928	1,963,206
Among: gain/loss on joint venture investments		902	118,008	2,254	96,031
(iv) Profit or loss from fair value changes	39	(226,964)	41,468	(384,053)	(103,872)
(v) Other income		438,772	358,819	120,150	181,222
Among: Gain / loss on foreign currency exchange		(793)	(65)	-	264
Other business income	40	439,565	358,884	120,150	180,958
Total operating income		29,283,029	19,653,408	18,724,898	11,770,621
2. Operating expenses					
(i) Business taxes and surcharges	41	(1,380,907)	(1,029,504)	(730,028)	(519,740)
(ii) Business and management fees	42	(5,043,399)	(3,793,001)	(1,801,842)	(1,437,424)
(iii) Impairment loss on assets	43	(4,780,759)	(2,303,186)	(4,315,494)	(2,113,412)
(iv) Other operating cost	44	(5,468,970)	(3,589,693)	(4,213,266)	(2,689,917)
Total operating expenses		(16,674,035)	(10,715,384)	(11,060,630)	(6,760,493)
3. Operating profit		12,608,994	8,938,024	7,664,268	5,010,128
Add: Non-operating income	45	1,045,960	182,640	29,883	124,187
Deduct: Non-operating expenses		(15,208)	(11,254)	(4,602)	(4,575)
4. Total profit		13,639,746	9,109,410	7,689,549	5,129,740
Deduct: Income tax expense	46	(3,546,557)	(2,122,856)	(1,840,886)	(962,821)
5. Net profit		10,093,189	6,986,554	5,848,663	4,166,919
Net profit attributable to shareholders of the parent company		8,659,592	5,892,163	5,848,663	4,166,919
Minority interests		1,433,597	1,094,391	-	-
6. Other comprehensive income/(expense)	47	328,583	(589,921)	487,519	(610,626)
7. Total comprehensive income		10,421,772	6,396,633	6,336,182	3,556,293
Total comprehensive income attributable to shareholders of the parent company		9,055,645	5,301,040	6,336,182	3,556,293
Total comprehensive income attributable to Minority interests		1,366,127	1,095,593	-	-

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

COMPANY AND CONSOLIDATED STATEMENTS OF CASH FLOWS  
TO 31 DECEMBER 2013

(RMB '000 unless specified otherwise)

	NOTE 9	THE GROUP		THE COMPANY	
		2013	2012 (Restated)	2013	2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net increase in due to customers		17,834,102	19,085,877	-	-
Net increase in borrowings from the Central Bank		12,300	-	-	-
Net decrease in deposits with Central Bank and other financial institutions		-	-	6,924	-
Net decrease in held for trading financial assets		-	-	-	1,412,184
Interest, fee and commission received in cash		27,835,712	21,117,352	12,726,253	8,673,663
Net increase in placements from banks and financial institutions		9,956,633	-	4,000,000	-
Net decrease in financial assets held under resale agreement		9,751,901	3,432,934	-	-
Net increase in disposal of repurchased business		-	8,108,693	-	-
Cash collected from policy-related buyouts		598,219	633,016	598,219	633,016
Cash received from loans to financial institutions		113,223,885	72,009,920	80,580,000	49,121,720
Cash received from other business-related activities		15,568,600	7,474,619	1,843,767	7,108,491
Subtotal of cash inflows from operating activities		194,781,352	131,862,411	99,755,163	66,949,074
Net increase in loans and advances to customers		(9,391,833)	(8,200,545)	-	-
Net increase in finance lease receivables		(7,945,765)	(9,813,722)	-	-
Net decrease in borrowings from the Central Bank		-	(10,000)	-	-
Net increase in deposits with Central Bank and other financial institutions		(3,981,055)	(6,105,340)	-	(42,143)
Net decrease in held for trading financial assets		(1,048,745)	(6,743,398)	(4,498,832)	-
Interest, fee and commission paid in cash		(10,141,340)	(8,718,303)	(4,303,244)	(2,869,183)
Net increase in placements with banks and financial institutions		(2,816,220)	(150,000)	-	-
Net decrease in disposal of repurchased business		(14,157,355)	-	-	-
Cash paid for commercial acquisition of assets		(35,914,185)	(24,380,484)	(35,914,185)	(24,380,484)
Cash paid to financial institutions as loan repayment		(73,384,167)	(49,710,386)	(50,428,000)	(33,274,455)
Payment for taxes		(6,142,175)	(2,295,391)	(3,543,721)	(479,996)
Cash paid to and paid for employees		(2,291,387)	(1,798,828)	(729,740)	(632,068)
Cash paid for other business-related activities		(12,977,534)	(9,585,517)	(8,229,000)	(3,816,244)
Subtotal of cash outflows used in operating activities		(180,191,761)	(127,511,914)	(107,646,722)	(65,494,573)
Net cash from (used in) operating activities	49	14,589,591	4,350,497	(7,891,559)	1,454,501
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash received from disinvestment		53,058,136	23,634,175	8,887,382	8,317,846
Cash received from investment gains		2,823,264	2,414,062	2,550,662	1,744,130
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		98,597	40,575	976	9,891
Net cash received from disposal of subsidiaries and other business units		561,000	-	-	-
Subtotal of cash inflows from investing activities		56,540,997	26,088,812	11,439,020	10,071,867
Cash paid for investments		(69,421,803)	(25,020,554)	(7,199,254)	(8,773,238)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,057,669)	(1,087,219)	(76,016)	(703,440)
Subtotal of cash outflows used in investing activities		(70,479,472)	(26,107,773)	(7,275,270)	(9,476,678)
Net cash flow (used in) from investing activities		(13,938,475)	(18,961)	4,163,750	595,189
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash received from capital contribution		1,328,204	1,058,620	-	500,000
Among: cash inflows from minority interests in subsidiaries		1,328,204	558,620	-	-
Cash received from borrowings from non-financial institutions		13,032,493	7,310,000	-	-
Cash received from bond issue		14,847,662	1,500,000	11,952,000	-
Subtotal of cash inflows from financing activities		29,208,359	9,868,620	11,952,000	500,000
Cash payment for debt		(500,000)	-	-	-
Cash payments for dividends, profit or interest		(1,888,467)	(427,745)	(1,257,037)	-
Cash payments for borrowings from non-financial institutions		(6,501,000)	(3,683,171)	-	-
Subtotal of cash outflows used in financing activities		(8,889,467)	(4,110,916)	(1,257,037)	-
Net cash from financing activities		20,318,892	5,757,704	10,694,963	500,000
Effect of exchange rate changes on cash and cash equivalents		(793)	(65)	-	264
Net increase in cash and cash equivalents		20,969,215	10,089,175	6,967,154	2,549,954
Cash and cash equivalents at the beginning of the year		30,916,426	20,827,251	10,484,115	7,934,161
Cash and cash equivalents at the end of the year	48	51,885,641	30,916,426	17,451,269	10,484,115

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
TO 31 DECEMBER 2013  
(RMB '000 unless specified otherwise)

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## EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

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CHINA HUARONG ASSET MANAGEMENT CO. LTD.

**COMPANY STATEMENT OF CHANGES IN EQUITY  
TO 31 DECEMBER 2013**

(RMB '000 unless specified otherwise)

	NOTES	Share capital	Capital reserves	Surplus reserves	General reserves	Retained earnings	Total
1. As at 1 January 2013		25,835,870	(480,017)	416,046	-	6,366,042	32,137,941
2. Changes of equity for the year							
(i) Net profit		-	-	-	-	5,848,663	5,848,663
(ii) Other comprehensive income	9.47	-	487,519	-	-	-	487,519
Subtotal of (i) and (ii)		-	487,519	-	-	5,848,663	6,336,182
(iii) Distribution of profits							
a. Appropriation of surplus reserve	9.35	-	-	584,866	-	(584,866)	-
b. Appropriation of general reserves	9.35	-	-	-	1,546,510	(1,546,510)	-
c. Dividend distribution	9.35	-	-	-	-	(1,248,139)	(1,248,139)
3. As at 31 December 2013		25,835,870	7,502	1,000,912	1,546,510	8,835,190	37,225,984

	NOTES	Paid-in capital	Share capital	Capital reserves	Surplus reserves	Retained earnings	Total
1. As at 1 January 2012		10,000,000	-	6,048,947	-	5,951,007	21,999,954
2. Changes of equity for the year							
(i) Net profit		-	-	-	-	4,166,919	4,166,919
(ii) Other comprehensive income/(expense)	9.47	-	-	(610,626)	-	-	(610,626)
Subtotal of (i) and (ii)		-	-	(610,626)	-	4,166,919	3,556,293
(iii) Capital contribution from shareholders and financial restructuring							
a. Revaluation of assets	2.2	-	-	6,081,694	-	-	6,081,694
b. Capitalised reserves	2.3	9,254,176	-	(5,918,338)	-	(3,335,838)	-
c. Financial restructuring	2.5	(19,254,176)	25,335,870	(6,081,694)	-	-	-
d. Capital contribution from shareholders	2.5	-	500,000	-	-	-	500,000
(iv) Distribution of profits							
a. Appropriation of surplus reserves	9.35	-	-	-	416,046	(416,046)	-
3. As at 31 December 2012		-	25,835,870	(480,017)	416,046	6,366,042	32,137,941

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

I. GENERAL

China Huarong Assets Managements Co., Ltd (the "Company") was transformed from the former China Huarong Assets Managements Corporation (the "Former Huarong") which was a wholly state-owned financial enterprise founded on 1 November 1999 by the Ministry of Finance (the "MOF") of the People's Republic of China (the "PRC"). The Former Huarong's establishment was authorised by the State Council (the "State Council") of the PRC. The registered capital of the Former Huarong is Renminbi (the "RMB") 10 billion. Pursuant to the Joint Stock Restructuring Plan of the China Huarong Assets Managements Corporation (the "Restructuring Plan") as subsequently endorsed by the MOF on 8 February 2012, the Former Huarong underwent its financial restructuring in accordance with the Restructuring Plan as at 30 September, 2011, and the Company was established on 28 September 2012. On this basis, the financial information is prepared as a continuation of the Former Huarong. After the restructuring, the registered capital of the Company is RMB25,835,870,462.

The Company has financial services certificate No. J0001H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business licence No. 100000000032506 issued by the State Administration of Industry and Commerce of the PRC.

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; receivership; foreign investment; securities and futures dealing; financial bonds issuance, inter-bank borrowing and lending, commercial financing for other financial institutions; approved asset securitisation business, financial institutions custody, closing and liquidation business; consulting and advisory business on finance, investment, legal and risk management; assets and project evaluation; insurance; fund management; asset management; trust, financial leasing service; real estate and industrial investments and other businesses approved by the CBRC or other regulatory bodies.

II. FINANCIAL RESTRUCTURING AND INCORPORATION OF JOINT STOCK COMPANY

Pursuant to the Restructuring Plan, the Former Huarong completed the following financial restructuring and joint stock reformation measures:

1. Continuation of the Former Huarong's commercial business

The Former Huarong was established to manage the non-performing assets spun off from state-owned financial institutions (hereinafter referred to as "policy business"). The Former Huarong also operated its own commercial business. Separate books and records had been maintained for the policy business and its own commercial business.

The commercial business of Former Huarong has been operated by the Company continuously. On this basis, the financial statements of the Company for the year ended 31 December 2013 are prepared as a continuation of the Former Huarong.



CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

II. FINANCIAL RESTRUCTURING AND INCORPORATION OF THE SHAREHOLDING  
COMPANY - continued

2. Revaluation of the Former Huarong's assets

In accordance with the related requirements for state-owned enterprises restructuring, the Former Huarong engaged China United Appraisals Co. Ltd. ("CUA"), a certified asset appraiser in the PRC to carry out an independent valuation on its assets and liabilities as at 30 September 2011. CUA issued a valuation report (Zhonglianpingbaozi [2012] No.198) (the "Valuation Report") on 6 April 2012 which was subsequently approved by the MOF pursuant to the Approval of Valuation Report on Assets of China Huarong Assets Management Corporation (Caijin [2012] No. 90). The revalued net assets of the Former Huarong amounting to RMB25,336 million were recognised in the financial information of the Group on 28 September 2012 and the revaluation surplus amounting to RMB6,082 million was credited to capital reserves accordingly.

3. Capitalisation of reserves and financial restructuring

According to the amount of share capital determined pursuant to the Restructuring Plan and the MOF's Approval of China Huarong Assets Management Co., Ltd. State Shares Administration Plan (Caijin [2012] No. 100) issued on 20 September, 2012, RMB9,254 million of the Former Huarong's reserves including (i) distributable profit of RMB3,336 million, (ii) capital reserves and investment revaluation reserves amounting to RMB5,918 million were capitalised as paid-in capital.

4. Acquisition of policy business related assets

Pursuant to the Restructuring Plan, the Former Huarong bought the policy business related assets from the MOF, the amount was determined based on the revaluation result as at 30 September 2011.

5. Incorporation of joint stock company

Pursuant to the MOF's Approval of China Huarong Assets Management Corporation of China State Shares Administration Plan (Caijin [2012] No.100) issued by the MOF, the MOF and China Life Insurance (Group) Company established China Huarong Assets Managements Co., Ltd by subscribing for 25,836 million promoters' shares at par value of RMB1 each and at a total subscription price of RMB25,836 million. The MOF subscribed for 25,336 million shares representing 98.06% of share capital of the Company. China Life Insurance (Group) Company subscribed for 500 million shares representing 1.94% of share capital of the Company. As at 16 September 2012, the Company received the shareholders' capital injection amounted to RMB25,836 million

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

III. BASIS OF PREPARATION

The financial statements have been prepared with the purpose for filing of annual financial statements to the MOF by the Group to report the financial statements of the Company and consolidated financial statements of the Group in 2013. Except for the matters specified below, the financial statements have been prepared in accordance to the Accounting Standards for Business Enterprises ("Enterprise Accounting Standards") and Relevant Rules issued by the MOF and came into effect on 15 February 2006, and stated in accordance to the Circular from MOF on Issuing the Template of 2013 Regulatory Financial Statements of Financial Institutions (Cai Jin [2013] No. 137).

Preferential tax arrangement in financial restructuring of the Company related to the reform has been reported to and approved by the MOF and State Administration of Taxation ("SAT").

Preferential tax arrangement in financial restructuring of the Company related to the reform has been reported to and approved by the MOF and State Administration of Taxation. As of the date of approval of the financial statements, the Company has not yet obtained the approval from the MOF and SAT for its preferential tax arrangement. While preparing the financial information, the Company's management assumed the aforesaid preferential tax arrangement would be approved based on the overall plan.

Major preferential tax arrangements include: concerning the direct increase of state-owned capital arose from the reform of the Company, the increment from asset revaluation is not subject to corporate income tax, and the taxable cost of the relevant assets will be adjusted according to the increased asset value after revaluation.

1. Due to the special purposes of the financial statements, the Group has not prepared the financial statements in accordance with the following Enterprise Accounting Standards and rules issued by the MOF:

- (1) Enterprise Accounting Standards No. 35 – Information disclosures by segment;
- (2) Enterprise Accounting Standards No. 36 – Disclosures of Executives' Remunerations in Related Party Disclosures;
- (3) Enterprise Accounting Standards No. 37 – Credit risk, liquidity risk, market risk and other disclosures stated under Financial Instruments; as well as the Level 3 Fair Value Disclosures stated in the Circular from MOF on Public and Private Entities about the Execution of Enterprise Accounting Standards in 2010 Annual Reporting.

2. The Group has early applied the following accounting standard issued by the MOF which is not yet effective:

Revised Enterprise Accounting Standards No. 33 – Consolidated Financial Statements.

3. The Group has not early applied the following accounting standards issued by the MOF but are not yet effective:

- (1) Revised Enterprise Accounting Standards No. 2 – Long-term Equity Investments;
- (2) Revised Enterprise Accounting Standards No. 9 – Staff Remuneration;
- (3) Revised Enterprise Accounting Standards No. 30 – Presentation of Financial Statements;
- (4) New Enterprise Accounting Standards No. 39 – Fair Value;
- (5) New Enterprise Accounting Standards No. 40 – Joint Venture Arrangements; and
- (6) New Enterprise Accounting Standards No. 41 – Disclosures of Interests in Other Entities.

The above revised and new Enterprise Accounting Standards are effective for annual periods beginning on or after 1 July 2014.

The management of the Group anticipated adopting the above new and revised corporate accounting standard from the corresponding effective years onwards. The management of the Group are either in the progress of assessing the impact, or believe the application of these new and revised Enterprise Accounting Standards will have no material impact to the financial statements of the Group and the Company.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

IV. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the basis of preparation described in Note III of the financial statements, which have shown accurately and completely the Company and consolidated statements of financial position as of 31 December 2013, as well as the Company and consolidated statements of income and the Company and consolidated statements of cash flows to 31 December 2013.

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

1. Fiscal year

The Group adopts the calendar year as its fiscal year, i.e. from 1 January to 31 December of each year.

2. Functional currency

Renminbi (RMB) is the currency used by the Group's onshore entities in the major economic environment where their business operations take place. Renminbi is the functional currency of the Group's onshore entities. The functional currencies of the Group's offshore entities will be determined by the major economic environment where their business operations take place. The financial statements of the Group are presented in Renminbi.

3. Basis of accounting and pricing principle

The Group's basis of accounting is on an accrual basis, except for certain financial instruments measured at fair value and the asset revaluation during the shareholding reform of the Company will be recorded at the assessed value recognised by the MOF, the measurement in the financial statements is determined on a historical cost basis. If an asset is impaired, the corresponding provisions for impairment should be accrued in accordance with the relevant rules.

4. Accounting treatments in business combinations under different control

In a business combination under different control, the companies involved are ultimately controlled by different or the same parties prior to the business combination.

The combination costs refer to the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquire. The acquirer shall, at the time of the business combination, include all intermediary charges incurred in the business combination, such as auditor's fees, legal fees, evaluation and consultation fees, as well as other related administrative fees, in the current profit or loss.

The acquirer shall measure all identifiable assets, liabilities and contingent liabilities it obtained from the acquiree which satisfied the recognition criteria at fair value on the date of acquisition. The acquirer shall recognise the positive balance between the acquisition costs and the fair value of the identifiable assets it obtained from the acquiree as an asset to be recognised as goodwill, which will be initially measured at cost.

Since the goodwill formed by the business combination is stated separately in the consolidated financial statements, and measured at the amount of cost less the provisions for accumulated impairment. Goodwill is subject to impairment test at least once a year at the year-end.

Impairment in goodwill will be accounted into the current profit or loss at the time when it happens, and no reversal is allowed in the following accounting periods.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

5. Preparation of consolidated financial statements

The consolidated financial statements incorporate the financial information of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved if and only if the Company has all the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power to affect its returns.

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

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

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

For the subsidiaries acquired or disposed by the Group, the results of operations and cash flows prior to the date of acquisition or up to the effective date of disposal (the date it lost control of the entity) are included in the consolidated statement of income and consolidated statement of cash flows, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All significant accounts and transactions between the Company and its subsidiaries, as well as between the subsidiaries, are eliminated on consolidation.

Minority interests refer to the shareholders' equity which is not attributable to the parent company, which will be presented as "Minority Interests" under Shareholders' Equity in the consolidated statement of financial position. The current profit or loss of a subsidiary attributable to minority interests is presented as "minority interest income" under Net Income in the consolidated statement of income. In consolidated financial statements, when the losses within a subsidiary attributed to its minority interests exceed the share proportion of the minority interests in opening balance of shareholders' equity, the difference should be deducted to minority interests.

6. Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

7. Translation of transactions denominated in foreign currencies

On initial recognition, foreign currency transactions are translated by applying the spot exchange rate at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currency at the spot exchange rate at the end of reporting period. Exchange differences arising from the differences between the spot exchange rate prevailing reporting period and those spot rates used on initial recognition or at the previous reporting period are recognised in profit or loss for the current period, except for those exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortized cost of the monetary assets) which are recognised in other comprehensive income and accumulated in equity.

Non-monetary items denominated in foreign currency are carried at historical cost using the exchange rates at the dates of the transactions; non-monetary items carried at fair value and denominated in foreign currency are translated using the exchange rates at the date when the fair value was determined. Concerning the available-for-sale financial assets, differences between the translated amount at functional currency and the original amount at functional currency are recognised as other comprehensive income and accounted for in capital reserves. Financial assets and liabilities carried at fair value where their changes are accounted in profit or loss for the period will be included in profit or loss for the period.

For the preparation of financial statements involving offshore business operations, which substantially form the monetary items denominated in foreign currency of the net investment in offshore operations, exchange differences arising from the exchange rate variation are presented in the "Exchange Difference from Foreign Currency Translation" of Shareholders' Equity; while disposal of offshore business operations will be accounted for the disposal profit or loss of the period.

For the purposes of presenting the consolidated financial statements, foreign currency financial statements of the offshore business operations are translated and presented into Renminbi by the following methods: all items of assets and liabilities in the consolidated statement of financial position are translated using the spot exchange rate at the end of the reporting period; shareholders' equity other than "retained earnings" is translated using the spot exchange rate at the dates of the transactions; all items in the statements of income and those reflect the incidence of profit distributions are translated at a rate similar to the spot exchange rate at the dates of the transactions; retained earnings at the beginning of the year refers to the retained earnings at the year end of the previous year after translation; retained earnings at the year end are calculated and presented based on profits after translation and to be distributed into various items; the total sum of the assets and liabilities and shareholders' equity after translation will be presented separately as the Exchange Difference from Foreign Currency Translation under shareholders' equity in the statement of financial position.

Translation of cash flows in foreign currency and cash flows of offshore subsidiaries adopts the spot exchange rates at the date of transactions, the amount of cash and cash equivalents affected by changes in exchange rates will be presented separately as adjusted items in the statements of cash flows as "Effect of foreign exchange rate changes on cash and cash equivalents".

8. Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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(RMB '000 unless specified otherwise)

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments – continued

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

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

Financial assets at FVTPL include: financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held-for-trading if: (1) it has been acquired principally for the purpose of selling it in the near future; or (2) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (3) it is a derivative that is not designated and effective as a hedging instrument, resulted from financial guarantee contract, linked with equity instrument with no quoted price in an active market whose fair value cannot be measured reliably and such equity instrument should be delivered for settlement.

A financial asset may be designated as at FVTPL upon initial recognition and its changes will be accounted in profit or loss: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency of gains or losses that would otherwise arise due to different measurements used on such financial asset; or (2) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided to key management on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, unless the embedded derivatives will not result to significant changes on cash flows of hybrid instruments or it is obvious that such embedded derivative should not be separated from the hybrid instruments.

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

Effective interest method

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

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments – continued

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include currency funds, deposits in the Central Bank, lending funds, financial assets held under resale agreements, accounts receivable, interest receivable, loans and advances to customers, debts classified as receivable and financial lease accounts receivable. Upon initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition or impairment is recognised in profit or loss. Debt securities with fixed or determinable payments but have no quoted price in an active market are accounted as "debts classified as receivable".

Available-for-sale financial assets

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

Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss of the current period) are recognised in other comprehensive income and accumulated in the capital reserves, until the financial asset is derecognised, at which time, such gain or loss is reclassified to profit or loss.

Interest received during the period in which the Group holds the available-for-sale financial assets and cash dividends declared by the investee are recognised as interest income and investment income respectively.

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

Dividends arising from available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividend has been established.



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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments - continued

Impairment of financial assets

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

When the fair value of an available-for-sale equity investment is obviously or continuously below its cost, it is regarded as an objective evidence that such investment is impaired.

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

- (1) significant financial difficulty of the issuer or obligor;
- (2) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (3) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (4) it becomes probable that the borrower will enter bankruptcy or other financial reorganisations;
- (5) the disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio;
- (7) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) other objective evidence indicating there is an impairment of a financial asset.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments - continued

Impairment of financial assets measured at amortised cost

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

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

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

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

Impairment of available-for-sale financial assets

When available-for-sale financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in owner's capital reserves are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortised, current fair value and impairment losses previously recognised in profit or loss.

For equity instruments with corresponding costs of fair values which have decreased 50% or more, or have been decreasing for 12 months or more at the end of the reporting period, the Group sets aside provisions for impairment loss based on the difference between the cost and fair value at the end of the reporting period.

If, in a subsequent period, the carrying amount of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed. The reversal of impairment losses of available-for-sale equity instruments is recognised in other comprehensive income and accumulated in capital reserves, and the impairment losses of available-for-sale debt instruments are recognised in profit or loss for the current period.

If an impairment loss has been incurred on an available-for-sale investment measured at cost, the carrying amount is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset at the time. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments - continued

Financial liabilities and equity instruments

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

An equity instrument is a contract that serves as a legally applicable evidence of the ownership in residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities of the Group are generally classified as other financial liabilities.

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Derivatives

Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value at the end of the reporting period. The gain or loss from the re-measurement is recognised in profit or loss.

An embedded derivative is treated as a separate derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, where the host contract is not measured at fair value and its changes are not recognised in profit or loss. While the embedded derivative is treated as a separate derivative and measured at fair value, changes of its fair value are recognised in profit or loss.

Determination of fair value

For the fair value of financial instruments in active markets, fair value of financial assets and financial liabilities are determined with reference to quoted market prices, which include listed equity securities and bond instruments quoted on major exchanges.

Quoted price of a financial instrument in an active market refers to the prices regularly obtained from stock exchanges, industry associations, pricing organisations or regulatory bodies, which also represents the actual and usual market price in a fair trade. A market is regarded as inactive if it fails to meet the above criteria. Indicators of an inactive market mainly include: the presence of significant bid-ask spread, or obvious expansion of the bid-ask spread, or inexistence of recent transactions.

Fair values of all other financial instruments are determined by using the appropriate valuation techniques. Valuation techniques include considering prices used in the most recent market transactions, discounted cash flows method, option pricing model and valuation techniques used by other market participants.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

8. Financial instruments - continued

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation of the Group specified in the relevant contract is discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

An agreement between the Group (borrower) and a lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position when both of the following conditions are satisfied:

- (1) the Group has a legal right to set off the recognised amount and the legal right is currently enforceable; and
- (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Transfer of financial assets

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

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

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part that is no longer recognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

9. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the contract holder for a loss it incurs, i.e. when the debtor defaults, the guarantor should indemnify the loss suffered by the contract holder.

The Group measures the financial guarantee contracts at fair value basis, which is designated as financial liabilities at FVTPL at initial recognition with their changes recognised in profit or loss. Such financial guarantee contract is recognised at fair value, and the changes of fair value after remeasurement will be directly recognised in profit or loss.

Financial guarantee contracts that are not designated as financial liabilities at FVTPL are initially recognised at fair value, and are subsequently measured at the higher of the following two amounts: (1) the amount of obligation under the contract, as determined in accordance with Enterprise Accounting Standard No. 13 – Contingencies; and (2) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the principles set out in Enterprise Accounting Standard No. 14 – Revenue.

10. Financial assets held under resale agreements and financial assets sold under repurchase agreements

Negotiable securities, bills and loans and advances provided for financial assets sold under repurchase agreements are presented based on the financial asset classification before being sold, where the amount received from the counterparty is presented as the proceeds from the sale of repurchased financial asset. Considerations paid for the purchase of negotiable securities, bills and loans under resale agreements are presented as financial assets held under resale agreements. The difference between purchase and sale price is recognised during the transaction period as gain or loss in profit or loss using the effective interest method.

11. Long-term equity investments

Long-term equity investment is initially measured on cost basis. For a long-term equity investment acquired from the business combination under different control, the investment cost of such long-term equity investment is determined by the combination cost.

Long-term equity investments under different control from or without significant influence on the investee, which is not quoted in an active market and its fair value cannot be reliably measured, should be accounted by using the cost method. Long-term equity investments which have significant influence on the investee should be accounted by using the equity method. When the Group has control, joint control or significant influence over the investee, and the fair value of the long-term equity investments can be reliably measured; such investment should be accounted for as an available-for-sale financial asset.

In addition, in the financial statements, the cost method is applied on the long-term equity investments controlled by the investee.

Control refers to the power to govern the financial and operating decisions of an enterprise so as to obtain benefits from its business activities. Joint control refers to the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence refers to the power to participate in the formulation of financial and operating policies of an enterprise, but not the power to control or jointly control the formulation of these policies with other parties.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

11. Long-term equity investments – continued

Long-term equity investments accounted for using the cost method

Under the cost method, a long-term equity investment is measured at initial investment cost. Cash dividends or profits received other than the actual purchase price paid and cash dividends or profits declared but not yet paid by the investee at the acquisition date are recognised as investment income.

Long-term equity investment accounted for using the equity method

The Group adopts the equity method on the investments in joint ventures. Joint ventures refers to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. For long-term equity investments accounted for using equity method and where the initial investment cost exceeds the identifiable fair value of the net assets of the investee at the time of investment, the initial investment cost will not be adjusted. For long-term equity investment where the initial investment cost is less than the identifiable fair value of the net assets of the investee at the time of investment, the difference is recognised in profit or loss, while the cost of the long-term equity investment is adjusted.

Under the equity method, investment profit or loss represents the Group's share of the net profits or losses entitled or shared by the investee for the current period. The Group recognises its share of the net profits or losses entitled or shared by the investee based on the fair values of the investee's identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. For the unrealised profit or loss between the Group and a joint venture, the part belongs to the Group, which is calculated with ratio held by the Group, should be offset. Accordingly, the Group recognises investment profit or loss on such basis. But if the unrealised loss is related with an impairment of the assets transferred between the Group and the investee, according to the Enterprise Accounting Standards No.8-Impairment of Assets, the loss cannot be offset. For any changes in shareholders' equity other than net profits or losses in the investee, the Group adjusts the carrying amount of the long-term equity investments and includes the corresponding adjustment in other comprehensive income of capital reserves.

The Group's share of net losses of the investee is recognised to the extent that the carrying amount of the long-term equity investments together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has incurred legal or constructive obligations, the estimated obligation assumed is provided for and charged to the profit or loss as investment loss for the period. Where the investee records profits in subsequent periods, the Group resumes recognising its share of profits after setting off profits against the unrecognised share of losses.

Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds from disposing the investments and the carrying amount at the date the equity method was discontinued is recognised in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount included in the shareholders' equity attributable to the percentage interest disposed is reclassified to profit or loss for the period.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

12. Investment properties

Investment properties refer to the properties held for earning rentals and/or capital appreciation.

Investment properties are initially measured at cost. Subsequent expenses are pertinent to the investment properties, if they economic benefits of such investment are likely to flow to the Group and such cost can be reliably measured, they shall be included in the cost of the investment properties. Other subsequent expenses shall be included in the current profit or loss when incurred.

The Group adopts the cost method for subsequent measurement to investment properties, which are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

The amount of proceeds on sale, transfer, retirement or damage of investment properties less its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

Depreciation of investment properties are recognised on a straight-line basis based on the lower of the following two periods: rental period or 30 years.

13. Fixed assets

Fixed assets are tangible assets that are held for supply of services, or for administrative purposes, and have useful lives of more than one accounting year.

Fixed assets are initially measured at cost with consideration of estimated net residual values. For the fixed assets under revaluation, the revalued amount confirmed by MOF shall represent their book values. Fixed assets are depreciated over the estimated useful lives from the month after they are in available condition for the intended use, applying the straight-line method. The useful lives, estimated net residual value rates and annual depreciation of each class of fixed assets are as follows:

<u>Classes</u>	<u>Useful Life</u>	<u>Estimated Net Residual Value</u>	<u>Annual Depreciation Rate</u>
Buildings and structures	5-35 years	3%-5%	2.71%-19.40%
Machines and equipment	5-20 years	3%-5%	4.75%-19.40%
Electronics and office furniture	3-10 years	3%-5%	9.50%-32.33%
Transportation vehicles	5-10 years	3%-5%	9.50%-19.40%

Estimated net residual value of a fixed asset is assumed to be the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the expected condition at the end of its useful life.

When future economic benefits are expected to be generated from a fixed asset, and its cost can be reliably measured, subsequent expenses related to such fixed asset shall be included in the fixed asset costs, and the carrying amount of the replaced part will be derecognised. Other subsequent expenses are recognised in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of fixed assets and depreciation methods applied at the end of each reporting period. Any change is accounted for as a change in accounting estimates.

When fixed assets are sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss of the current period.



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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

13. Fixed assets – continued

Construction in progress

Cost of construction in progress is determined as the expenditure actually incurred for the construction, comprising all expenditure incurred for construction projects and other related charges during the construction period. For the construction in progress under revaluation, the revalued amount confirmed by MOF shall represent their book values. Construction in progress is reclassified as fixed asset when the asset is ready for its intended use.

14. Borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, capitalisation of such borrowing costs can commence only when expenditures for the asset are being incurred, borrowing costs are being incurred or activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. Capitalisation of borrowing costs is suspended during periods in which the construction or production of a qualifying asset is interrupted abnormally until the construction or production is resumed. The amount of other borrowing costs incurred is recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalised. Exchange differences in connection with general-purpose borrowings are recognised in profit or loss in the period in which they are incurred.

15. Intangible assets

Intangible assets refer to the identifiable non-monetary intangible assets owned or controlled by the Group.

An intangible asset is measured initially at cost. For the intangible assets under revaluation, the revalued amounts confirmed by MOF shall represent their book values. Expenditures incurred on an intangible asset is recognised as cost of the intangible asset only if it is probable that the economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other expenditures on an intangible asset are charged to profit or loss when incurred.

Land-use right acquired is normally recognised as an intangible asset. For self-constructed buildings, related land-use right and the buildings are separately accounted for as an intangible asset and fixed asset. For buildings purchased, the purchase consideration is allocated among the buildings and land-use right on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration is recognised in full as fixed assets.

When an intangible asset is available for use, its original cost less net residual value and any accumulated impairment losses is amortised over its estimated useful life using the straight-line method.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the reporting period, and makes adjustments when necessary.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

16. Assets in satisfaction of debts

Assets in satisfaction of debts are initially measured at fair value. At the end of the reporting period, an asset in satisfaction of debts is measured at either its carrying amount of recoverable amount, whichever is lower. When the recoverable amount is lower than the carrying amount, provisions for decrease of assets in satisfaction of debts will be provided.

The difference between proceeds obtained from disposal of an asset in satisfaction of debts and the carrying amount of such asset are recognised in profit or loss when the asset is disposed.

If an asset in satisfaction of debts obtained becomes owner-occupied, its carrying amount is carried forward on the date of purpose change. Provisions for decrease in carrying forward amount are made for assets in satisfaction of debts with provisions for decreases previously provided.

17. Impairment of non-financial assets

The Group reviews at the end of each reporting period whether there is any indication that long-term equity investments, fixed assets, intangible assets, investment properties and other assets may be impaired. If any indication of that an asset may be impaired, the recoverable amount is estimated. The recoverable amount is estimated on the basis of the individual asset. If it is not possible to determine the recoverable amount of the individual asset, the Group determines the recoverable amount of the group of assets to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, provisions for asset impairment are made based on the difference and recognised in profit or loss of the period.

The Group tests the goodwill for impairment annually, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, the carrying amount of goodwill is allocated to the cash-generating units which are expected to be benefit from the synergy of business combination. If the recoverable amount of the cash-generating units containing goodwill is less than its carrying amount, an impairment loss is recognised accordingly. The amount of impairment loss first allocated less the carrying amount of any goodwill allocated to the cash-generating units, and then less the carrying amount of other assets (other than goodwill) within the cash-generating units, pro rata on the basis of the carrying amount of each asset.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but an asset is traded in an active market, fair value is the current bid price. If there is no sale agreement or active market for an asset, fair value is based on the best information available. Costs of disposal include legal costs related to the disposal of the asset, related taxes, costs of removing the asset and direct costs to bring the asset into condition for its sale.

Once an impairment loss on goodwill is recognised, it is not reversed in subsequent periods.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

18. Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity Scheme

In addition to the basic pension scheme, subject to approval from MOF, employees of the Company may voluntarily enroll the Contribution Pension Scheme set up by the Company since December 2013. Employees of the Group's subsidiary participate in Annuity Scheme set up by the subsidiary ("Annuity Scheme"). The Company and the Group's subsidiaries made annuity contributions with reference to employees' salaries of last year, and the contributions are expensed in profit or loss when incurred. The Company and the Group's subsidiaries have no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

Early retirement scheme and retirement benefits

The Company pays supplementary retirement benefits to the employees retired before 31 December 2012, and internal retirement benefits to those accepted the arrangement of early retirement.

Supplementary retirement benefits include organisation of external pension funds and supplementary medical benefits. Early retirement benefits include various welfare provisions provided to employees who have not reached the statutory retirement age but voluntarily retire from their roles as approved by the Company's management. The Company provides early retirement benefits to the employees in the scheme from the date when the arrangement begins until the employees reach the statutory retirement age.

Obligations of the above supplementary retirement benefits and early retirement benefits are calculated by an independent actuary by using the projected unit credit method at the end of reporting period. Present values of liabilities are the discounted projected amount of cash outflows based on the treasury bonds income rate similar to the maturity of liabilities in employees benefits. Gains or losses incurred from the changes and other factors of the actuarial assumption are recognised in profit or loss when incurred.

19. Provisions

Provisions are recognised when the Group has any obligations related to a contingency with these conditions: (1) the Group has a present obligation; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

The amount recognised as provisions is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money.

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

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

20. Interest income and expense

Interest income and expense are recognised in profit or loss based on the effective interest method used for cost amortisation of the related financial assets and financial liabilities.

Interest expense for all interest-bearing financial instruments is recognised within interest expense in profit or loss using the effective interest method.

Once an impairment loss of a financial asset has been recognised, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

21. Fee and commission income

Fees and commission are charged to customers for various services provided by the Group. For services provided for a certain period, fees and commission are charged on the basis of duration of services. Fee and commission income of other services is recognised upon completion of the transactions.

The income from securities trading brokerage business is recognised as fee and commission income on trade date basis.

The income from securities underwriting services is recognised according to the underwriting agreements as fee and commission income when the securities are allotted.

Funds and asset management fee, future business fee and consultancy and financial advisory fee are recognised on accrual basis when services are provided.

Fee and commission income from trustee services is recognised on accrual basis and calculated in accordance with the terms of the trust contract.

Fee and commission income is recognised when the related services are delivered on an accrual basis.

22. Investment income

Interests, dividends and gains or losses from disposal of credit assets and equity assets which are classified as FVTPL, available-for-sale financial assets, held-to-maturity investments and debts classified as receivables are recognised as investment income.

23. Dividend income

Dividend income is recognised when the Group's rights to receive the payment has been established and is recognised in profit or loss provided that the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

24. Revenue from sale of goods

Revenue from sale of goods is recognised when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognised when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the properties; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably. Deposits and installments received from purchasers prior to meeting the above criteria for revenue recognition are included in the statements of financial position under other liabilities.

25. Government grants

Government grants are not recognised until the Group can comply with the conditions attracting to them and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

26. Income tax

Current income tax

At the end of each reporting period, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

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(RMB '000 unless specified otherwise)

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

26. Income tax – continued

Deferred income tax

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, or the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, are recognised as deferred tax assets and deferred tax liabilities using the balance sheet liability method.

Deferred tax liabilities are not recognised for taxable temporary differences related to the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, for taxable temporary differences associated with investments in subsidiaries and joint ventures, if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, the Group does not recognise the corresponding deferred tax liability. Except for the temporary differences above, the Group recognises deferred tax liabilities for all other temporary differences.

Deferred tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred tax asset for deductible temporary differences associated with investments in subsidiaries and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: (1) it is not probable that the temporary difference will reverse in the foreseeable future; and (2) it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Group recognised a deferred tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the end of the reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the end of the reporting period, the Group reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilised, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax and deferred income tax expense or income is recognised in profit or loss of the period, except for those related to transactions and items recognised in other comprehensive income or directly included in shareholders' equity; or the deferred tax adjustment of the carrying amount of goodwill arising from business combination.

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(RMB '000 unless specified otherwise)

V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

26. Income tax – continued

Income tax offset

When the Group has a legal enforceable right to offset the recognised amounts and intends to either settle on a net basis or realise the asset and settle the liability simultaneously, tax asset and tax liability of current period are offset and the amount is presented on a net basis.

When the Bank has a legal enforceable right to offset the current income tax assets and current income tax liabilities, the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, are reported on a net basis.

27. Fiduciary activities

The Group's fiduciary activities mainly include trust and asset custody services.

The trust services of the Group refers to the business that the Group acts as trustee to undertake investment activities within the agreed period and scope on behalf of the third-party lenders who provide the funds.

The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

28. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

29. Comparative figures

In 2013, The Company's management has reorganised and repositioned the principal operating activities of the Company when preparing the financial statements, and modified the related accounting method and accounting policy as follows. Based on these modifications, the Group restated certain assets, liabilities and shareholders' equity as of 31 December 2012, as well as the items in profit or loss in 2012. Comparative figures in the financial statements are presented in restated form.

Accounting of acquisition and restructuring

Recoverable amounts of non-performing assets in acquisition and restructuring, which is one of the principal operating activities of the Company, are stated in agreements either in fixed amount or determinable amount. At the same time, such financial assets do not have public quoted prices in active markets, therefore these financial assets are accounted as debts classified as receivables for accounting purpose, and subsequently measured based on amortisation cost.

Accounting of acquisition and disposal

Recoverable amounts of non-performing assets in acquisition and disposal, which is one of the principal activities of the Company, are stated in agreements or other legal documents either in fixed amount or determinable amount; and such financial assets do not have public quoted price in active markets, therefore these financial assets are accounted as debts classified as receivables for accounting purpose, and subsequently measured based on amortisation cost. Recoverable amounts, which are not stated in agreements either in fixed amount or determinable amount, are classified as financial assets designated to be measured at fair value and the changes are recognised in profit or loss of the period.

Accounting of debt-to-equity swaps

According to rules set out in the Circular from MOF on Strengthening Financial and Risk Management in Financial and Asset Management Companies (Cai Jin [2013] No. 2), the regulatory authorities reassured that, asset management companies should not, provided that shareholders' interests are duly protected, participate the ordinary business decision making and financial management of debt-to-equity swap business; while these companies should develop an exit strategy to facilitate the exit. Therefore, the Company clarified the nature and intention of holding these assets and classified the policy-related debt-to-equity swaps into available-for-sale financial assets for the purpose of accounting.

Combination of structured entities

The Company has early applied the Enterprise Accounting Standards No. 33 – Consolidated Financial Statements to reflect the status of the Company's consolidated financial statements. Please refer to Note VIII.2 for details.



CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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V. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES - continued

29. Comparative figures – continued

Effects of the above changes to the statements of financial position and shareholders' equity as of 31 December 2012 are listed below:

The Group

	31 December 2012						
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Net profit</u>	<u>Capital reserves</u>	<u>General reserves</u>	<u>Retained earnings</u>	<u>Minority interests</u>
Before restatement	309,335,319	(269,421,035)	(5,911,410)	856,317	(2,871,672)	(4,861,785)	(6,785,226)
Accounting of acquisition and restructuring	82,852	-	(7,255)	-	-	(82,852)	-
Accounting of acquisition and disposal	204,871	-	147,190	-	-	(204,871)	-
Accounting of debt-to-equity swaps	956,037	-	(500,336)	(253,020)	-	(703,017)	-
Effects on current tax and deferred tax	(204,011)	(44,454)	61,445	187,020	-	61,445	-
Reversal of general reserves	-	-	-	-	1,546,510	(1,546,510)	-
Elimination adjustment of subsidiaries	(1,853,379)	1,837,575	15,804	-	-	15,804	-
Combined structured entities	6,865,121	(5,212,030)	(270)	(43,983)	-	(14,202)	(1,594,906)
Elimination adjustment of consolidation	(45,434)	2,314	9,761	(1,557,268)	1,325,162	290,485	(15,259)
Others	(307,788)	375,516	292,908	-	-	(67,730)	-
Subtotal	<u>5,698,269</u>	<u>(3,041,079)</u>	<u>19,247</u>	<u>(1,667,251)</u>	<u>2,871,672</u>	<u>(2,251,448)</u>	<u>(1,610,165)</u>
After restatement	<u>315,033,588</u>	<u>(272,462,114)</u>	<u>(5,892,163)</u>	<u>(810,934)</u>	<u>-</u>	<u>(7,113,233)</u>	<u>(8,395,391)</u>

The Company

	31 December 2012					
	<u>Gross asset</u>	<u>Gross liabilities</u>	<u>Net profit</u>	<u>Capital reserves</u>	<u>General reserves</u>	<u>Retained earnings</u>
Before restatement	116,275,209	(85,200,291)	(4,160,464)	546,017	(1,546,510)	(3,822,509)
Accounting of acquisition and restructuring	82,852	-	(7,255)	-	-	(82,852)
Accounting of acquisition and disposal	204,871	-	147,190	-	-	(204,871)
Accounting of debt-to-equity swaps	956,037	-	(500,336)	(253,020)	-	(703,017)
Effects on current tax and deferred tax	(204,011)	(44,454)	61,445	187,020	-	61,445
Reversal of general reserves	-	-	-	-	1,546,510	(1,546,510)
Others	(307,788)	375,516	292,501	-	-	(67,728)
Subtotal	<u>731,961</u>	<u>331,062</u>	<u>(6,455)</u>	<u>(66,000)</u>	<u>1,546,510</u>	<u>(2,543,533)</u>
After restatement	<u>117,007,170</u>	<u>(84,869,229)</u>	<u>(4,166,919)</u>	<u>480,017</u>	<u>-</u>	<u>(6,366,042)</u>

NOTES TO THE FINANCIAL STATEMENTS  
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(RMB '000 unless specified otherwise)

VI. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY

The following are the critical judgments and key estimates that the Group has made in the process of applying its accounting policies and that have the most significant effect on the amounts in the financial information.

Details of the Group's judgments concerning whether to impose control over structured entities are set out in Note VIII.2.

1. Classification of financial assets

The Group's management needs to make critical judgment in classifying financial assets based on the purpose and nature on the initial recognition date. Due to the differences of the subsequent measurement of financial assets, the classification will affect the financial position and operating results. If the Group sold more than an insignificant amount of held-to-maturity investments before maturity, it is required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

2. Fair value of financial instruments

The Group uses various valuation techniques for financial instruments which are not quoted in active markets. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. In practical applications, models only use observable data. However, areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3. Impairment of available-for-sale equity financial instruments

The determination of whether an available-for-sale equity financial instrument is impaired requires significant judgment. In making this judgment, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

4. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgment. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

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(RMB '000 unless specified otherwise)

VI. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY – continued

5. Impairment of loans and advances to customers and financial assets classified as receivables

The Group reviews its loans and advances to customers and debts classified as receivables to assess impairment on a periodic basis. In determining whether objective evidence of impairment exists, the Group makes judgments as to whether the estimated future cash flows from loans and advances to customers and financial assets classified as receivables would likely be lower than those stated on the repayment schedule as stipulated in the loan agreements. The Group first makes the assessment on an individual basis to determine allowance for impairment losses. When the decrease may not have been identified individually or the individual loans and advances to customers or debts classified as receivables is not significant, management uses estimates based on historical loss experience and industrial experience data on a collective basis to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6. Taxes

There are certain transactions and activities in day-to-day business operations for which the ultimate tax determination is subject to the final approval of annual tax return of the Group filed with relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income tax and deferred income tax in the period during which such a determination is made.

VII. TAXATION

1. Corporate income tax

According to Enterprise Income Tax Law of the People's Republic of China, the Company and the main subsidiaries in China are subject to corporate income tax at a tax rate of 25%. Deductions (before tax) from corporate income tax are subject to the relevant State regulations.

2. Value-added tax (VAT)

VAT is charged on leasehold income at 17% according to the relevant tax laws and regulations after offset against current deductible input tax.

3. Business tax

Taxable turnovers of the Company and the main subsidiaries in China are subject to business tax at a tax rate of 5%.

4. Urban maintenance and construction tax

The Company and the main subsidiaries in China are subject to urban maintenance and construction tax (UMCT) at 1%-7% of business tax.

5. Education surcharge

The Company and the main subsidiaries in China are subject to education surcharge at 3%-5% of business tax.

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VIII. Business combination and consolidated financial statements

1. Major subsidiaries of the Group

General statuses of the major subsidiaries of the Group on 31 December 2013 are listed below. The following main subsidiaries are included for business combination.

<u>Name of the registered company</u>	<u>Principal activity</u>	<u>Place of Registration/ incorporation</u>	<u>Date of incorporation</u>	<u>Registered/ paid-in capital</u>	<u>The Group's shareholdings</u>	<u>Percentage of voting rights</u>
Huarong Xiangjiang Bank Co Ltd	Banking	Changsha, China	Oct 2010	6,161,131	50.98%	50.98%
Huarong Securities	Securities	Beijing, China	Sep 2007	3,177,536	79.66%	79.66%
China Huarong Financial Leasing Co Ltd	Leasing	Hangzhou, China	Dec 2001	2,500,000	79.92%	79.92%
Huarong Rongde Asset Management Co Ltd	Asset management	Beijing, China	Jun 2006	1,788,000	59.30%	59.30%
Huarong International Trust Co Ltd	Trust	Urumqi, China	Aug 2002	1,517,770	97.50%	97.50%
Huarong Real Estate Co Ltd	Real estate	Zhuhai, China	May 1994	850,000	100.00%	100.00%
Huarong Huitong Asset Management Co Ltd	Asset management	Changsha, China	Sep 2010	306,700	66.84%	66.84%
Huarong Zhiyuan Investment & Management Co Ltd	Asset management	Beijing, China	Nov 2009	91,000	100.00%	100.00%

2. Details of the consolidated structured entities controlled by the Group:

The Group had consolidated certain structured entities; mainly comprise of trusts products and asset management plans. To determine whether control exists, the Group uses the following judgments:

- (1) For trusts products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses beyond its investment, if any, in accordance with the guarantee agreements. The Group then concludes that its exposure to variability of returns is of such significance that these structured entities shall be consolidated.
- (2) For trusts products and asset management plans where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the wealth management products and trusts that is of such significance that it indicates that the Group is a principal. The wealth management products, trusts and asset management plans shall be consolidated if the Group acts in the role of principal.

The financial impact of each of the trusts and wealth management products on the Group's financial position as at 31 December 2013 and results and cash flows of the year 2013, though consolidated, are not significant and therefore not disclosed separately.

Interests in all consolidated structured entities directly held by the Group amounted to RMB 19,919 million (31 December 2012: RMB 6,865 million). Interests held by other interest holders are presented in the consolidated statement of financial position as Other Liabilities, which amounted to RMB 15,412 million (31 December 2012: RMB 5,212 million).

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS

1. Cash and bank balances

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Cash	305,860	247,480	605	675
Bank balances	22,414,396	16,458,162	13,106,664	10,344,840
- House accounts	20,418,676	14,506,653	13,106,664	10,344,840
- Cash held on behalf of clients	1,995,720	1,951,509	-	-
Settlement reserves (1)	792,762	390,519	-	-
Other cash and bank balances (2)	33,997	41,220	33,997	40,932
Total	<u>23,547,015</u>	<u>17,137,381</u>	<u>13,141,266</u>	<u>10,386,447</u>

- (1) Settlement reserves of the Group mainly comprise of the deposits China Securities Depository and Clearing Corporation Limited (CSDC).
- (2) Other cash and bank balances of the Group mainly comprise of securities customers' funds.
- (3) On 31 December 2013, the restricted cash and bank balances of Group amounted to RMB 2,532 million (31 December 2012: 2,219 million).

2. Deposits in the Central Bank

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Mandatory reserves with the central bank (1)	16,714,403	12,870,471	-	-
Surplus reserves with the central bank (2)	4,053,889	3,525,539	-	-
Other deposits with the central bank	77,824	254,319	1,222	1,211
Total	<u>20,846,116</u>	<u>16,650,329</u>	<u>1,222</u>	<u>1,211</u>

- (1) Mandatory reserves with the central bank refers to the general deposits placed by the Group in People's Bank of China according to the relevant regulation, including deposit reserves in RMB and deposit reserves in foreign currencies. Such reserves are not available for day-to-day business.

On 31 December 2013, deposit reserves in RMB of the Group represent 18% of the total (31 December 2013: 18%); on 31 December 2013, deposit reserves in foreign currencies of the Group represent 5% of the total (31 December 2013: 5%). Deposit reserves in foreign currencies at PBOC do not bear interest.

- (2) Surplus reserves with the central bank refer to the deposits placed by the Group in PBOC in excess of the statutory reserves, mainly include capital settlement and position allocation.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

3. Placements with banks and financial institutions

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Deposits with banks	6,416,436	3,199,963	-	-
Deposits with non-bank financial institutions	-	14,228	-	-
Placements with banks	3,070,713	950,000	3,800,000	-
Loans to margin clients	1,519,276	111,818	-	-
Allowance for impairment	-	-	-	-
Total	<u>11,006,425</u>	<u>4,276,009</u>	<u>3,800,000</u>	<u>-</u>

4. Held-for-trading financial assets

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Held for trading financial assets				
Stocks	541,954	569,709	-	-
Bonds	188,563	2,471,877	-	-
- Government bonds	-	746,821	-	-
- Financial institution bonds	-	328,759	-	-
- Corporate bonds	188,563	1,396,297	-	-
Funds	109,084	176,110	-	-
Subtotal	<u>839,601</u>	<u>3,217,696</u>	<u>-</u>	<u>-</u>
Financial assets designated as at fair value through profit or loss				
Wealth management products	10,291,681	11,504,844	-	-
Acquired distressed debt assets	8,134,164	3,126,253	8,134,164	3,126,253
Equity instruments	1,408,496	1,115,033	-	-
Subtotal	<u>19,834,341</u>	<u>15,746,130</u>	<u>8,134,164</u>	<u>3,126,253</u>
Total	<u>20,673,942</u>	<u>18,963,826</u>	<u>8,134,164</u>	<u>3,126,253</u>

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

5. Accounts receivable

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Accounts receivable	866,196	664,485	830,967	664,485
Other receivables	6,443,917	2,501,084	635,179	108,996
Allowance for impairment	(80,433)	(55,671)	(29,606)	(29,606)
Total	<u>7,229,680</u>	<u>3,109,898</u>	<u>1,436,540</u>	<u>743,875</u>

6. Interest receivable

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Interest receivable from finance lease	378,534	377,100	-	-
Interest from held-to-maturity investments	172,902	121,898	-	-
Interest from available-for-sale financial assets	131,650	97,424	-	-
Interest from loans and advances	130,815	98,713	-	-
Interest from debts classified as receivables	81,935	20,290	4,489	-
Interest from lending funds	44,287	13,405	4,225	-
Interest from bank balances and others	39,794	56,959	18,876	-
Allowance for impairment	-	-	-	-
Total	<u>979,917</u>	<u>785,789</u>	<u>27,590</u>	<u>-</u>

As of 31 December 2013, the balance of interest receivable of the Group and the Company remains outstanding in less than one year.

7. Financial assets held under resale agreements

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Bills	35,453,379	39,460,283	-	-
Securities	2,660,305	324,649	544,000	138,600
Others	2,350,000	-	-	-
Allowance for impairment	-	-	-	-
Total	<u>40,463,684</u>	<u>39,784,932</u>	<u>544,000</u>	<u>138,600</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

8. Loans and advances

The Group

(1) Distribution of loans and advances to corporate and individual customers are set out below:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Loans and advances to corporate customers		
Loans	38,758,484	32,150,163
Discounted bills	71,736	529,975
Subtotal	<u>38,830,220</u>	<u>32,680,138</u>
Loans and advances to individual customers		
Individual production and business loans	4,509,007	3,144,391
Individual housing loans	2,283,135	1,144,782
Others	1,792,699	1,047,871
Subtotal	<u>8,584,841</u>	<u>5,337,044</u>
Total amount of loans and advances	<u>47,415,061</u>	<u>38,017,182</u>
Less: Allowance for loans and advances loss		
Among: Individually assessed	-	(8,216)
Collectively assessed	<u>(757,950)</u>	<u>(475,116)</u>
Total	<u>46,657,111</u>	<u>37,533,850</u>

(2) The movements of allowance for loans and advances loss are set out below:

	<u>2013</u>			<u>2012</u>		
	<u>Individually assessed allowance</u>	<u>Collectively assessed allowance</u>	<u>Total</u>	<u>Individually assessed allowance</u>	<u>Collectively assessed allowance</u>	<u>Total</u>
At beginning of the year	8,216	475,116	483,332	8,216	366,940	375,156
Charge for the year	-	268,572	268,572	-	107,989	107,989
Write off	(8,216)	-	(8,216)	-	-	-
Recovered loans and advances previously written off	-	14,262	14,262	-	187	187
At end of the year	<u>-</u>	<u>757,950</u>	<u>757,950</u>	<u>8,216</u>	<u>475,116</u>	<u>483,332</u>



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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

9. Available-for-sale financial assets

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Measured at fair value				
Equity instruments	9,739,941	9,852,291	9,555,518	9,698,961
Bonds	5,191,556	3,945,148	-	-
- Government bonds	85,263	358,529	-	-
- Financial institution bonds	1,372,910	583,779	-	-
- Corporate bonds	3,733,383	3,002,840	-	-
Funds	1,069,025	2,111,352	103,338	81,982
Non-performing assets acquired by subsidiaries	70,540	76,402	-	-
Wealth management products	803,000	117,985	-	-
Subtotal	<u>16,874,062</u>	<u>16,103,178</u>	<u>9,658,856</u>	<u>9,780,943</u>
Measured at cost				
Equity instruments (1)	11,251,949	12,163,397	11,251,949	12,163,397
Allowance for impairment	(14,484)	-	(14,484)	-
Subtotal	<u>11,237,465</u>	<u>12,163,397</u>	<u>11,237,465</u>	<u>12,163,397</u>
Total	<u><u>28,111,527</u></u>	<u><u>28,266,575</u></u>	<u><u>20,896,321</u></u>	<u><u>21,944,340</u></u>

- (1) Equity instruments measured at cost refer to the remaining non-listed policy-related debt-to-equity swap assets bought out by the Group from the MOF in 2012. Fair values of these instruments cannot be reliably measured; therefore they are measured at cost. Concerning these policy-related debt-to-equity swap shares, the Company continues not to participate the ordinary business decision making and financial management of debt-to-equity swap business, provided that shareholders' interests are duly protected, and it has developed the exit strategy to facilitate the exit in accordance to the relevant regulations from MOF on strengthening financial and risk management in financial and asset management companies.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

10. Held-to-maturity investments

The Group

	<u>31 December 2013</u>	<u>31 December 2012</u>
Bonds		
- Government bonds	6,182,189	5,870,654
- Financial institution bonds	5,949,591	3,216,391
- Corporate bonds	491,976	654,894
	<u>          </u>	<u>          </u>
Allowance for impairment	-	-
	<u>          </u>	<u>          </u>
Total	<u>12,623,756</u>	<u>9,741,939</u>

11. Debts classified as receivables

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Acquired distressed assets	92,128,482	55,230,011	92,128,482	55,230,011
Asset management plans	12,569,566	-	-	-
Trusts products	11,206,025	12,457,844	2,107,033	3,433,000
Entrusted loans	9,795,344	8,942,665	-	-
Debt instruments	6,582,699	2,626,731	5,172,699	4,864,731
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	132,282,116	79,257,251	99,408,214	63,527,742
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Allowance for impairment	(7,966,612)	(4,335,582)	(7,637,252)	(4,129,997)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>124,315,504</u>	<u>74,921,669</u>	<u>91,770,962</u>	<u>59,397,745</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

12. Finance lease receivables

The Group

	<u>31 December 2013</u>	<u>31 December 2012</u>
Minimum finance lease receivables:		
Within 1 year (inclusive)	19,139,598	14,598,886
1 year to 2 years (inclusive)	18,944,894	15,854,271
2 years to 3 years (inclusive)	13,751,277	11,753,523
3 years to 5 years (inclusive)	12,100,758	11,662,367
Over 5 years	2,325,884	2,747,249
Subtotal	66,262,411	56,616,296
Less: Unrealised finance income	(9,426,471)	(8,515,590)
Pending reimbursement of deductible VAT	(834,949)	(38,842)
Allowance for impairment	(833,252)	(793,722)
Total	55,167,739	47,268,142
Present value of minimum finance lease receivables:		
Within 1 year (inclusive)	14,856,265	11,831,710
1 year to 2 years (inclusive)	15,773,628	13,065,362
2 years to 3 years (inclusive)	11,788,496	9,923,793
3 years to 5 years (inclusive)	10,691,182	10,108,697
Over 5 years	2,058,168	2,338,580
Total	55,167,739	47,268,142

The movements of allowance for finance lease receivables are:

	<u>2013</u>			<u>2012</u>		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
At beginning of the year	84,902	708,820	793,722	-	709,146	709,146
Allowance/ (reversal) during the year	109,770	(63,602)	46,168	84,902	(326)	84,576
Write-off	(6,822)	-	(6,822)	-	-	-
Recovered finance lease previously written-off	184	-	184	-	-	-
At end of the year	188,034	645,218	833,252	84,902	708,820	793,722

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

13. Long-term equity investments

	The Group		The Company	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Subsidiaries	-	-	15,824,814	15,264,508
Joint ventures	3,243,671	3,282,976	2,799,869	2,843,533
Others	858,457	872,801	749,125	711,294
Subtotal	4,102,128	4,155,777	19,373,808	18,819,335
Less: allowance for long-term equity investments impairment	(4,300)	(4,355)	(205,012)	(205,012)
Total	4,097,828	4,151,422	19,168,796	18,614,323

(1) Financial information of the major joint ventures

Name of investee	Place of incorporation	Business nature	31 December 2013						Net annual profit of investee
			Registered capital	Share in registered capital of investee	Share in voting rights of investee	Total assets of investee at the year end	Total liabilities of investee at the year end	Total annual income of investee	
Huarong (Sanming) Investment Co Ltd	Sanming, China	Real estate	30,000	40.00%	40.00%	190,931	164,821	-	(2,038)
Ningxia Huahui Activated Carbon Co Ltd	Yinchuan, China	Manufacturing	117,182	34.14%	34.14%	437,476	303,765	259,275	507
Jianghai Securities	Harbin, China	Commercial services	1,363,209	30.08%	30.08%	15,812,736	13,522,274	630,668	109,462
Zunyi Titanium Corporation Limited	Zunyi, China	Manufacturing	354,900	24.46%	24.46%	4,070,371	3,250,777	1,000,666	(514,865)
Sunshine Kaidi New Energy Group Co Ltd	Wuhan, China	Manufacturing	417,285	20.59%	20.59%	34,851,647	26,222,022	6,035,397	702,203
Hangzhou Hangyang Co Ltd (1)	Hangzhou, China	Manufacturing	812,025	14.71%	14.71%	9,747,512	6,475,971	5,472,894	238,985
Shanghai Automation Instrument Co Ltd (2)	Shanghai, China	Manufacturing	399,287	9.22%	9.22%	1,784,523	1,590,258	1,079,415	12,043

Name of investee	Place of incorporation	Business nature	31 December 2012						Net annual profit of investee
			Registered capital	Share in registered capital of investee	Share in voting rights of investee	Total assets of investee at the year end	Total liabilities of investee at the year end	Total annual income of investee	
Huarong (Sanming) Investment Co Ltd	Sanming, China	Real estate	30,000	40.00%	40.00%	96,484	68,337	-	(1,801)
Ningxia Huahui Activated Carbon Co Ltd	Yinchuan, China	Manufacturing	117,182	42.67%	42.67%	499,866	366,842	172,123	1,973
Jianghai Securities	Harbin, China	Commercial services	1,363,209	30.08%	30.08%	8,228,277	6,020,481	489,421	25,998
Zunyi Titanium Corporation Limited	Zunyi, China	Manufacturing	354,900	24.46%	24.46%	4,193,883	2,859,424	11,471,415	(149,746)
Sunshine Kaidi New Energy Group Co Ltd	Wuhan, China	Manufacturing	417,285	20.59%	20.59%	31,737,034	24,277,854	5,663,918	602,000
Hangzhou Hangyang Co Ltd (1)	Hangzhou, China	Manufacturing	812,025	15.00%	15.00%	8,251,819	5,101,494	5,353,925	452,268
Shanghai Automation Instrument Co Ltd (2)	Shanghai, China	Manufacturing	399,287	9.22%	9.22%	1,685,565	1,503,188	1,044,159	10,570

(1) Listed company, the Group occupies two seats on the board with nine directors, while the other seven directors are not persons acting in concert. The Group uses the equity method to account for its joint venture since it has significant influence over the financial and operational decisions of the entity.

(2) Listed company, the Group occupies one seat on the board with thirteen directors, while five of them are persons acting in concert. According to the Articles of Association, resolutions in relation to decisions on business operations should be passed by majority (over 50%) of the board. Therefore, the Group uses the equity method to account for its joint venture since it has significant influence over the financial and operational decisions of the entity.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

14. Investment properties

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cost				
At beginning of the year	702,055	277,775	424,280	-
Transfer-in/ (Transfer-out) during the year	(698)	424,280	-	424,280
At end of the year	<u>701,357</u>	<u>702,055</u>	<u>424,280</u>	<u>424,280</u>
Accumulated depreciation				
At beginning of the year	51,224	25,275	16,775	-
Charge for the year	22,424	12,529	13,421	3,355
(Transfer-out)/Transfer-in during the year	(283)	13,420	-	13,420
At end of the year	<u>73,365</u>	<u>51,224</u>	<u>30,196</u>	<u>16,775</u>
Net book value				
At beginning of the year	<u>650,831</u>	<u>252,500</u>	<u>407,505</u>	<u>-</u>
At end of the year	<u>627,992</u>	<u>650,831</u>	<u>394,084</u>	<u>407,505</u>

According to the relevant regulations in China, ownership of properties held by CHAMC should be transferred to the Group upon the incorporation of the shareholding company. On the date of approval of these financial statements, the Group has not yet completed the ownership transfer in full. The management of the Group expected that such formalities will not result to affect the Group's right to inherit these assets or result to adverse effects on business operations of the Group.

15. Fixed assets

<u>The Group</u>	<u>Buildings &amp; structures</u>	<u>Machines &amp; equipment</u>	<u>Electronics &amp; office furniture</u>	<u>Transportation vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
1 January 2013	3,416,572	312,743	500,368	180,720	114,198	4,524,601
Additions during the year	212,869	450,262	54,485	18,997	95,471	832,084
Disposals during the year	(76,916)	(735)	(19,077)	(8,513)	-	(105,241)
Transfer-in/ (Transfer-out)	11,692	-	92,019	-	(103,013)	698
31 December 2013	<u>3,564,217</u>	<u>762,270</u>	<u>627,795</u>	<u>191,204</u>	<u>106,656</u>	<u>5,252,142</u>
Accumulated depreciation						
1 January 2013	363,470	27,600	325,289	99,322	-	815,681
Charge for the year	178,833	28,384	90,322	24,046	-	321,585
Disposals during the year	(13,727)	(709)	(18,339)	(7,275)	-	(40,050)
Transfer-in	283	-	-	-	-	283
31 December 2013	<u>528,859</u>	<u>55,275</u>	<u>397,272</u>	<u>116,093</u>	<u>-</u>	<u>1,097,499</u>
Allowance for impairment loss						
1 January 2013	898	-	-	-	-	898
Charge for the year	-	24,792	-	-	-	24,792
31 December 2013	<u>898</u>	<u>24,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,690</u>
Net book value						
1 January 2013	<u>3,052,204</u>	<u>285,143</u>	<u>175,079</u>	<u>81,398</u>	<u>114,198</u>	<u>3,708,022</u>
31 December 2013	<u>3,034,460</u>	<u>682,203</u>	<u>230,523</u>	<u>75,111</u>	<u>106,656</u>	<u>4,128,953</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

15. Fixed assets – continued

The Group – continued

	<u>Buildings &amp; structures</u>	<u>Machines &amp; equipment</u>	<u>Electronics &amp; office furniture</u>	<u>Transportation vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
1 January 2012	2,732,471	109,054	449,357	165,862	75,292	3,532,036
Additions during the year	659,668	216,354	108,251	27,008	41,209	1,052,490
Disposals during the year	(22,515)	(12,665)	(59,543)	(12,150)	-	(106,873)
Transfer-out	(424,280)	-	2,303	-	(2,303)	(424,280)
Elimination on revaluation	(378,125)	-	-	-	-	(378,125)
Increment on revaluation	849,353	-	-	-	-	849,353
31 December 2012	3,416,572	312,743	500,368	180,720	114,198	4,524,601
Accumulated depreciation						
1 January 2012	497,034	23,863	305,332	88,812	-	915,041
Charge for the year	273,345	13,049	68,518	22,362	-	377,274
Disposals during the year	(15,364)	(9,312)	(48,561)	(11,852)	-	(85,089)
Transfer-out	(13,420)	-	-	-	-	(13,420)
Elimination on revaluation	(378,125)	-	-	-	-	(378,125)
31 December 2012	363,470	27,600	325,289	99,322	-	815,681
Allowance for impairment loss						
1 January 2012	898	-	-	-	-	898
31 December 2012	898	-	-	-	-	898
Net book value						
1 January 2012	2,234,539	85,191	144,025	77,050	75,292	2,616,097
31 December 2012	3,052,204	285,143	175,079	81,398	114,198	3,708,022

The Company

	<u>Buildings &amp; structures</u>	<u>Machines &amp; equipment</u>	<u>Electronics &amp; office furniture</u>	<u>Transportation vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
1 January 2013	1,474,703	13,430	150,278	118,502	8,107	1,765,020
Additions during the year	161	1,123	38,844	5,819	15,419	61,366
Disposals during the year	-	(15)	(12,054)	(4,589)	-	(16,658)
Transfer-in/ (Transfer-out)	10,994	-	-	-	(10,994)	-
31 December 2013	1,485,858	14,538	177,068	119,732	12,532	1,809,728
Accumulated depreciation						
1 January 2013	128,507	10,466	114,323	70,287	-	323,583
Charge for the year	107,658	348	21,498	12,956	-	142,460
Disposals during the year	-	(15)	(11,557)	(4,501)	-	(16,073)
31 December 2013	236,165	10,799	124,264	78,742	-	449,970
Net book value						
1 January 2013	1,346,196	2,964	35,955	48,215	8,107	1,441,437
31 December 2013	1,249,693	3,739	52,804	40,990	12,532	1,359,758

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

15. Fixed assets – continued

The Company – continued

	<u>Buildings &amp; structures</u>	<u>Machines &amp; equipment</u>	<u>Electronics &amp; office furniture</u>	<u>Transportation vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
1 January 2012	807,356	18,438	176,562	111,192	1,553	1,115,101
Additions during the year	638,665	1,642	21,229	18,091	6,554	686,181
Disposals during the year	(18,266)	(6,650)	(47,513)	(10,781)	-	(83,210)
Transfer-out	(424,280)	-	-	-	-	(424,280)
Elimination on revaluation	(378,125)	-	-	-	-	(378,125)
Increment on revaluation	849,353	-	-	-	-	849,353
31 December 2012	1,474,703	13,430	150,278	118,502	8,107	1,765,020
Accumulated depreciation						
1 January 2012	333,570	12,790	145,948	69,121	-	561,429
Charge for the year	201,435	1,083	14,314	11,942	-	228,774
Disposals during the year	(14,953)	(3,407)	(45,939)	(10,776)	-	(75,075)
Transfer-out	(13,420)	-	-	-	-	(13,420)
Elimination on revaluation	(378,125)	-	-	-	-	(378,125)
31 December 2012	128,507	10,466	114,323	70,287	-	323,583
Net book value						
Balance on 1 January 2012	473,786	5,648	30,614	42,071	1,553	553,672
Balance on 31 December 2012	1,346,196	2,964	35,955	48,215	8,107	1,441,437

According to the relevant regulations in China, ownership of fixed assets held by CHAMC should be transferred to the Group upon the incorporation of the shareholding company. On the date of approval of these financial statements, the Group has not yet fully completed the ownership transfer in. The management of the Group expected that such formalities will not result to affect the Group's right to inherit these assets or result to adverse effects on business operations of the Group.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

16. Intangible assets

The Group

	2013			
	<u>Software</u>	<u>Land-use right</u>	<u>Others</u>	<u>Total</u>
Cost				
1 January 2013	106,858	106,072	15,068	227,998
Additions during the year	52,588	47,384	-	99,972
31 December 2013	159,446	153,456	15,068	327,970
Accumulated amortisation				
1 January 2013	59,091	6,781	7,997	73,869
Charge for the year	17,760	3,041	1,482	22,283
31 December 2013	76,851	9,822	9,479	96,152
Net carrying value				
1 January 2013	47,767	99,291	7,071	154,129
31 December 2013	82,595	143,634	5,589	231,818

	2012			
	<u>Software</u>	<u>Land-use right</u>	<u>Others</u>	<u>Total</u>
Cost				
1 January 2012	70,026	122,368	14,983	207,377
Additions during the year	34,644	-	85	34,729
Disposals during the year	(12)	-	-	(12)
Revaluation	2,200	(16,296)	-	(14,096)
31 December 2012	106,858	106,072	15,068	227,998
Accumulated amortisation				
1 January 2012	44,730	4,022	6,518	55,270
Charge for the year	14,373	2,759	1,479	18,611
Disposals during the year	(12)	-	-	(12)
31 December 2012	59,091	6,781	7,997	73,869
Net carrying value				
1 January 2012	25,296	118,346	8,465	152,107
31 December 2012	47,767	99,291	7,071	154,129



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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

16. Intangible assets – continued

The Company

	2013		
	<u>Software</u>	<u>Land-use right</u>	<u>Total</u>
Cost			
1 January 2013	44,908	281	45,189
Additions during the year	15,083	-	15,083
31 December 2013	59,991	281	60,272
Accumulated amortisation			
1 January 2013	30,485	-	30,485
Charge for the year	8,189	281	8,470
31 December 2013	38,674	281	38,955
Net carrying value			
1 January 2013	14,423	281	14,704
31 December 2013	21,317	-	21,317
	2012		
	<u>Software</u>	<u>Land-use right</u>	<u>Total</u>
Cost			
1 January 2012	25,449	16,577	42,026
Additions during the year	17,259	-	17,259
Revaluation	2,200	(16,296)	(14,096)
31 December 2012	44,908	281	45,189
Accumulated amortisation			
1 January 2012	23,914	-	23,914
Charge for the year	6,571	-	6,571
31 December 2012	30,485	-	30,485
Net carrying value			
1 January 2012	1,535	16,577	18,112
31 December 2012	14,423	281	14,704

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

17. Deferred taxation

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Deferred income tax assets	2,330,672	915,101	1,895,450	722,737
Deferred income tax liabilities	(454,694)	(55,905)	(293,943)	-
Total	<u>1,875,978</u>	<u>859,196</u>	<u>1,601,507</u>	<u>722,737</u>

(1) The movements of deferred income tax balance

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
At beginning of the year	859,196	152,694	722,737	-
Charge to profit or loss	1,019,168	722,797	934,969	722,737
Charge to other comprehensive income	(2,386)	(16,295)	(56,199)	-
At end of the year	<u>1,875,978</u>	<u>859,196</u>	<u>1,601,507</u>	<u>722,737</u>

(2) Deferred income tax assets and deferred income tax liabilities

The Group

	<u>31 December 2013</u>		<u>31 December 2012</u>	
	<u>Deductible temporary differences</u>	<u>Deferred income tax assets</u>	<u>Deductible temporary differences</u>	<u>Deferred income tax assets</u>
Allowance for asset impairment	6,981,632	1,745,408	2,437,220	609,305
Accrued but not paid staff costs	1,193,904	298,476	918,972	229,743
Changes in fair value of				
Held-for-trading financial assets	758,664	189,666	161,628	40,407
Changes in fair value of				
available-for-sale financial assets	214,704	53,676	11,228	2,807
Retirement benefit liabilities	67,908	16,977	93,039	23,260
Others	105,876	26,469	38,316	9,579
Subtotal	<u>9,322,688</u>	<u>2,330,672</u>	<u>3,660,403</u>	<u>915,101</u>
	<u>Deductible temporary differences</u>	<u>Deferred income tax assets</u>	<u>Deductible temporary differences</u>	<u>Deferred income tax assets</u>
Accrued interest measured at				
amortised cost	(1,106,456)	(276,614)	(55,088)	(13,772)
Changes in fair value of				
available-for-sale financial assets	(321,300)	(80,325)	(108,280)	(27,070)
Changes in fair value of				
Held-for-trading financial assets	(253,124)	(63,281)	(24,072)	(6,018)
Others	(137,896)	(34,474)	(36,180)	(9,045)
Subtotal	<u>(1,818,776)</u>	<u>(454,694)</u>	<u>(223,620)</u>	<u>(55,905)</u>
Total	<u>7,503,912</u>	<u>1,875,978</u>	<u>3,436,783</u>	<u>859,196</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

17. Deferred taxation – continued

(2) Deferred income tax assets and deferred income tax liabilities – continued

The Company

	<u>31 December 2013</u>		<u>31 December 2012</u>	
	<u>Deductible</u> <u>temporary</u> <u>differences</u>	<u>Deferred</u> <u>income tax</u> <u>assets</u>	<u>Deductible</u> <u>temporary</u> <u>differences</u>	<u>Deferred</u> <u>income tax</u> <u>assets</u>
Allowance for asset impairment	6,428,908	1,607,227	2,113,400	528,350
Accrued but not paid staff costs	640,127	160,032	574,791	171,988
Changes in fair value of held-for-trading financial assets	473,648	118,412	89,596	22,399
Retirement benefit liabilities	39,116	9,779	-	-
Subtotal	<u>7,581,799</u>	<u>1,895,450</u>	<u>2,777,787</u>	<u>722,737</u>
	<u>Deductible</u> <u>temporary</u> <u>differences</u>	<u>Deferred</u> <u>income tax</u> <u>assets</u>	<u>Deductible</u> <u>temporary</u> <u>differences</u>	<u>Deferred</u> <u>income tax</u> <u>assets</u>
Accrued interest measured at amortised cost	(950,976)	(237,744)	-	-
Changes in fair value of available-for-sale financial assets	(224,796)	(56,199)	-	-
Subtotal	<u>(1,175,772)</u>	<u>(293,943)</u>	<u>-</u>	<u>-</u>
Total	<u>6,406,027</u>	<u>1,601,507</u>	<u>2,777,787</u>	<u>722,737</u>

(3) Deferred income tax effects recognised in statements of income of the period are comprised of the following temporary differences:

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Allowance for asset impairment	1,136,103	553,305	1,078,877	528,350
Changes in fair value of held-for-trading financial assets	91,996	(13,933)	96,013	22,399
Accrued but not paid staff costs	68,733	178,966	(11,956)	171,988
Accrued interest measured at amortised cost	(262,842)	3,552	(237,744)	-
Retirement benefit liabilities	(6,283)	218	9,779	-
Others	(8,539)	689	-	-
Total	<u>1,019,168</u>	<u>722,797</u>	<u>934,969</u>	<u>722,737</u>

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

18. Other assets

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Inventory (1)	3,200,810	1,657,847	-	-
Non-current assets to be disposed of (2)	1,202,906	4,608,627	-	-
Guarantee deposits paid	265,277	365,191	-	-
Assets in satisfaction of debts(3)	159,655	119,374	159,655	42,002
Bills receivable	35,030	19,053	5,000	-
Dividends receivable	18,328	25,496	18,328	25,496
Others	721,473	200,093	72	495
Total	<u>5,603,479</u>	<u>6,995,681</u>	<u>183,055</u>	<u>67,993</u>

- (1) Inventory refers to investment properties that are used by the Group's subsidiary, Huarong Real Estate Co Ltd, for real estate development and construction; mainly include real estate development costs, land development costs and low-value consumables.
- (2) Non-current assets to be disposed of are the physical assets invested by the shareholders of the Group's subsidiary, Huarong Xiangjiang Bank Co Ltd, during the reform.
- (3) Assets in satisfaction of debts

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Buildings and structures	138,290	33,013	138,290	33,013
Others	98,437	165,012	98,437	86,061
Subtotal	236,727	198,025	236,727	119,074
Less: allowance for impairment of assets in satisfaction of debts	(77,072)	(78,651)	(77,072)	(77,072)
Total	<u>159,655</u>	<u>119,374</u>	<u>159,655</u>	<u>42,002</u>

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

19. Allowance for asset impairment

The Group

2013						
	1 January	Charge for the year	Recovery after write-off	Charged-off/ sold assets	Reversals due to increase in asset values	31 December
Loans and advances	483,332	268,572	14,262	(8,216)	-	757,950
Accounts receivable	55,671	26,715	-	-	(1,953)	80,433
Available-for-sale financial assets	-	14,484	-	-	-	14,484
Debts classified as receivables	4,335,582	5,113,164	-	(1,441,234)	(40,900)	7,966,612
Finance lease receivables	793,722	109,770	184	(6,822)	(63,602)	833,252
Long-term equity investments	4,355	-	-	(55)	-	4,300
Fixed assets	898	24,792	-	-	-	25,690
Assets in satisfaction of debts	78,651	-	-	(1,579)	-	77,072
Other assets	1,294	-	-	-	-	1,294
Total	5,753,505	5,557,497	14,446	(1,457,906)	(106,455)	9,761,087

2012						
	1 January	Charge for the year	Recovery after write-off	Charged-off/ sold assets	Reversals due to increase in asset values	31 December
Loans and advances	375,156	107,989	187	-	-	483,332
Accounts receivable	68,340	43	-	(1,036)	(11,676)	55,671
Debts classified as receivables	2,110,703	3,142,054	-	(909,935)	(7,240)	4,335,582
Finance lease receivables	709,146	84,902	-	-	(326)	793,722
Long-term equity investments	31,575	-	-	(27,220)	-	4,355
Fixed assets	898	-	-	-	-	898
Assets in satisfaction of debts	77,072	1,579	-	-	-	78,651
Other assets	1,294	-	-	-	-	1,294
Total	3,374,184	3,336,567	187	(938,191)	(19,242)	5,753,505

The Company

2013				
	1 January	Charge for the year	Charged-off/ sold assets	31 December
Accounts receivable	29,606	-	-	29,606
Available-for-sale financial assets	-	14,484	-	14,484
Debts classified as receivables	4,129,997	4,937,739	(1,430,484)	7,637,252
Long-term equity investments	205,012	-	-	205,012
Assets in satisfaction of debts	77,072	-	-	77,072
Total	4,441,687	4,952,223	(1,430,484)	7,963,426

2012				
	1 January	Charge for the year	Charged-off/ sold assets	31 December
Accounts receivable	29,597	9	-	29,606
Debts classified as receivables	2,016,594	3,023,338	(909,935)	4,129,997
Long-term equity investments	205,012	-	-	205,012
Assets in satisfaction of debts	77,072	-	-	77,072
Total	2,328,275	3,023,347	(909,935)	4,441,687

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

20. Short-term borrowings

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Credit borrowings	54,845,250	50,977,002	34,920,000	38,118,000
Guarantee borrowings	1,672,673	2,200,000	-	-
Pledge borrowings	649,323	1,109,980	-	-
Secured borrowings	-	60,000	-	-
Total	<u>57,167,246</u>	<u>54,346,982</u>	<u>34,920,000</u>	<u>38,118,000</u>

The Group and the Company's short-term borrowings are subject to interest rates ranging from 4.45% to 9%, due within one year. Details of collaterals of the Group's short-term borrowings are set out in Note IX.50.

21. Placements from banks and non-financial institutions

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Deposits from banks	11,642,016	11,067,517	-	-
Deposits from non-bank financial institutions	5,075,900	821,801	-	-
Placements from banks	5,128,035	-	4,000,000	-
Total	<u>21,845,951</u>	<u>11,889,318</u>	<u>4,000,000</u>	<u>-</u>

22. Accounts payable

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Accounts payable to the MOF (1)	15,103,409	21,988,616	15,103,409	21,988,616
Other accounts payable	13,064,446	12,816,598	1,800,054	1,159,300
Security deposits payable	5,238,690	1,642,058	994,140	1,141,482
Total	<u>33,406,545</u>	<u>36,447,272</u>	<u>17,897,603</u>	<u>24,289,398</u>

- (1) Accounts payable to the MOF represents outstanding balance of consideration arising from the purchase of assets in the policy business portfolio from the MOF. The consideration is repayable in five equal installments of RMB 3.94 billion over the following five years, representing an effective annual interest rate of 2.16%.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

23. Financial assets sold under repurchase agreements

The Group

	<u>31 December 2013</u>	<u>31 December 2012</u>
Sale of repurchased bills	27,486,573	37,578,564
Sale of repurchased finance lease receivables	5,245,064	8,067,428
Sale of repurchased securities	1,257,000	2,500,000
Total	<u>33,988,637</u>	<u>48,145,992</u>

Details of pledges of financial assets sold by the Group under repurchase agreements are set out in Note IX.50.

24. Due to customers

The Group

	<u>31 December 2013</u>	<u>31 December 2013</u>
Demand deposits		
Corporate	34,575,743	30,187,755
Individual	10,268,343	9,130,554
Time deposits		
Corporate	14,086,432	11,528,161
Individual	15,083,221	11,374,808
Guarantee deposits	11,534,314	7,544,202
Others	2,337,885	286,356
Total	<u>87,885,938</u>	<u>70,051,836</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

25. Staff costs payable

The Group

	2013			
	<u>1 January</u>	<u>Charge for the year</u>	<u>Current year payment</u>	<u>31 December</u>
Wages or salaries, bonuses, allowances and subsidies	1,184,261	2,395,695	(1,670,358)	1,909,598
Staff welfare	305	143,423	(143,199)	529
Social insurance	30,387	257,143	(232,707)	54,823
Housing funds	2,378	155,207	(153,000)	4,585
Labor union and staff education fees	61,009	89,876	(56,826)	94,059
Annuity Scheme	-	25,155	(258)	24,897
Retirement benefits	93,039	85,302	(23,469)	154,872
Others	62,067	24,296	(11,570)	74,793
Total	<u>1,433,446</u>	<u>3,176,097</u>	<u>(2,291,387)</u>	<u>2,318,156</u>

	2012			
	<u>1 January</u>	<u>Charge for the year</u>	<u>Current year payment</u>	<u>31 December</u>
Wages or salaries, bonuses, allowances and subsidies	1,014,893	1,488,408	(1,319,040)	1,184,261
Staff welfare	293	112,331	(112,319)	305
Social insurance	19,757	175,931	(165,301)	30,387
Housing funds	2,797	111,874	(112,293)	2,378
Labor union and staff education fees	58,711	62,378	(60,080)	61,009
Retirement benefits	92,167	14,990	(14,118)	93,039
Others	57,837	19,907	(15,677)	62,067
Total	<u>1,246,455</u>	<u>1,985,819</u>	<u>(1,798,828)</u>	<u>1,433,446</u>



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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

25. Staff costs payable – continued

The Company

	2013			
	1 January	Charge for the year	Current year payment	31 December
Wages or salaries, bonuses, allowances and subsidies	574,596	607,410	(542,060)	639,946
Staff welfare	195	33,675	(33,689)	181
Social insurance	1,642	78,880	(77,401)	3,121
Housing funds	130	49,059	(49,776)	(587)
Labor union and staff education fees	49,102	27,334	(12,989)	63,447
Annuity Scheme	-	25,155	(258)	24,897
Retirement benefits	-	128,079	(1,997)	126,082
Others	62,067	24,296	(11,570)	74,793
Total	687,732	973,888	(729,740)	931,880

	2012			
	1 January	Charge for the year	Current year payment	31 December
Wages or salaries, bonuses, allowances and subsidies	540,504	497,959	(463,867)	574,596
Staff welfare	183	25,235	(25,223)	195
Social insurance	2,330	66,793	(67,481)	1,642
Housing funds	120	37,323	(37,313)	130
Labor union and staff education fees	49,214	22,395	(22,507)	49,102
Others	57,837	19,907	(15,677)	62,067
Total	650,188	669,612	(632,068)	687,732

26. Tax payable

	The Group		The Company	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Enterprise income tax	2,190,286	2,037,964	1,715,449	1,685,558
Business tax	272,032	319,264	193,769	219,982
Other taxes	17,561	57,969	32,217	33,622
Total	2,479,879	2,415,197	1,941,435	1,939,162

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

27. Interest payable

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Interest on due to customers	841,539	534,189	-	-
Interest on bank borrowings	479,289	238,304	323,133	123,193
Bond interest payable	148,755	33,481	65,835	-
Interest on placements from banks	144,280	8,785	36,716	-
Interest on financial assets sold under repurchase agreements	43,509	60,200	-	-
Interest on guarantee deposits	23,225	66,628	-	-
Total	<u>1,680,597</u>	<u>941,587</u>	<u>425,684</u>	<u>123,193</u>

28. Bonds issuance

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
10-year fixed rate subordinated bonds (1)	1,493,250	1,492,500	-	-
3-year fixed rate financial bonds (2)	-	499,684	-	-
5-year fixed rate financial bonds (3)	498,760	497,850	-	-
3-year fixed rate financial bonds (4)	998,509	996,966	-	-
5-year floating rate financial bonds (5)	397,288	-	-	-
3-year floating rate financial bonds (6)	398,374	-	-	-
4-year fixed rate financial bonds (7)	1,500,000	-	-	-
91-day fixed rate financial bonds (8)	1,000,000	-	-	-
3-year fixed rate financial bonds (9)	6,000,000	-	6,000,000	-
5-year fixed rate financial bonds (10)	6,000,000	-	6,000,000	-
Consolidation elimination (10)	(400,000)	-	-	-
Total	<u>17,886,181</u>	<u>3,487,000</u>	<u>12,000,000</u>	<u>-</u>

- (1) As approved by PBC and CBRC, the Company's subsidiary, Huarong Xiangjiang Bank Co Ltd, issued 10-year fixed rate subordinated bonds on 29 December 2012, with a principal of RMB 1.5 billion, coupon rate of 6.3% per annum, payable annually. Huarong Xiangjiang Bank is entitled to early buy back all or part of an issue prior to 29 December 2012 at par. If Huarong Xiangjiang Bank does not exercise its right to buy back, the coupon rate remains at 6.3% per annum since 19 December 2017.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

28. Bonds issuance – continued

- (2) As approved by PBC and CBRC, the Company's subsidiary, Huarong Financial Leasing Co Ltd, issued 3-year fixed rate financial bonds in May 2010, with a principal of RMB 500 million, coupon rate of 3.86% per annum, payable annually.
- (3) As approved by PBC and CBRC, the Company's subsidiary, Huarong Financial Leasing Co Ltd, issued 5-year fixed rate financial bonds in May 2010, with a principal of RMB 500 million, coupon rate of 4.6% per annum, payable annually.
- (4) As approved by PBC and CBRC, the Company's subsidiary, Huarong Financial Leasing Co Ltd, issued 3-year fixed rate financial bonds in December 2011, with a principal of RMB 1 billion, coupon rate of 5.8% per annum, payable annually.
- (5) As approved by PBC and CBRC, the Company's subsidiary, Huarong Financial Leasing Co Ltd, issued 5-year floating rate financial bonds in September 2013, with a principal of RMB 400 million. Floating rate is determined based on the prevailing 1-year time deposit rate announced by PBC on the date of issue and other interest payment date for the interest-bearing years plus 2.7%, payable annually.
- (6) As approved by PBC and CBRC, the Company's subsidiary, Huarong Financial Leasing Co Ltd, issued 3-year floating rate financial bonds in September 2013, with a principal of RMB 400 million. Floating rate is determined based on the prevailing 1-year time deposit rate announced by PBC on the date of issue and other interest payment date for the interest-bearing years plus 2.5%, payable annually.
- (7) As approved by PBC and CBRC, the Company's subsidiary, Huarong Securities, issued 4-year fixed rate financial bonds in July 2013, with a principal of RMB 1.5 billion, coupon rate of 6.25% per annum, payable annually.
- (8) As approved by PBC and CBRC, the Company's subsidiary, Huarong Securities, issued 91-day fixed rate financial bonds in December 2013, with a principal of RMB 1 billion, coupon rate of 6.67% per annum, principal and interests are payable in lump sum upon maturity.
- (9) As approved by PBC and CBRC, the Company issued 3-year fixed rate financial bonds in November 2013, with a principal of RMB 6 billion, coupon rate of 5.55% per annum, payable annually.
- (10) As approved by PBC and CBRC, the Company issued 5-year fixed rate financial bonds in November 2013, with a principal of RMB 6 billion, coupon rate of 5.66% per annum, payable annually. The Company's subsidiary, Huarong Xiangjiang Bank Co Ltd acquired the above financial bonds in November 2013, by paying a total of RMB 40 billion in principal.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

29. Long-term borrowings

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Credit borrowings	64,222,220	24,465,000	52,960,000	19,610,000
Pledged borrowings	12,592,277	10,947,950	-	-
Guaranteed borrowings	1,808,494	-	-	-
Secured borrowings	340,906	-	-	-
Total	<u>78,963,897</u>	<u>35,412,950</u>	<u>52,960,000</u>	<u>19,610,000</u>

Remaining maturity of long-term borrowings is set out below:

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Within one year	12,689,176	10,959,421	8,300,000	9,610,000
1 year -5 years	56,045,611	14,105,659	34,660,000	10,000,000
More than 5 years	10,229,110	10,347,870	10,000,000	-
Total	<u>78,963,897</u>	<u>35,412,950</u>	<u>52,960,000</u>	<u>19,610,000</u>

Borrowings of the Group and the Company are subject to an interest rate between 4.45% and 9%. Details of collaterals for long-term borrowings of the Group are set out in Note IX.50.

CHINA HUARONG ASSET MANAGEMENT CO. LTD.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

30. Other liabilities

The Group

	<u>31 December 2013</u>	<u>31 December 2012</u>
Payables to interest holders of consolidated		
Structured entities	15,411,893	5,212,030
Payables to brokerage clients	1,986,506	2,124,317
Others	420,650	356,538
Total	<u>17,819,049</u>	<u>7,692,885</u>

31. Paid-in capital/ share capital

	<u>The Group &amp; The Company</u>	
	<u>2013</u>	<u>2012</u>
At 1 January	25,835,870	10,000,000
Financial restructuring	-	15,335,870
Capital injection by shareholders	-	500,000
At 31 December	<u>25,835,870</u>	<u>25,835,870</u>

Pursuant to Circular from the MOF on the Implementation Plan for China Huarong Asset Management Co Ltd.'s Transformation and Reform (Cai Jin [2012] No.8), CHAMC performed an overall reform at the date of evaluation, i.e. 30 September 2011, and changed into a shareholding company on 28 September 2012. As of 30 September 2011, the assessed commercial ownership interests (net asset) held by CHAMC's amount to RMB 25,336 million, converted into a total of 25,336 shares with a conversion ratio of 1:1, with a total amount of RMB 25,336 million, to be held by the original shareholder, i.e. the MOF. China Life made a monetary contribution of RMB 50 billion, which converted into 50 billion shares. BDO China Shu Lun Pan Certified Public Accountants LLP has audited the shareholders' contributions and issued an auditor's report – Xin Hui Shi Bao Zi (2012) No. 73001.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

32. Capital reserves

The Group

	2013			
	<u>1 January</u>	<u>Increase in the current year</u>	<u>Decrease in the current year</u>	<u>31 December</u>
Share premium	1,212,366	-	-	1,212,366
Other changes in equity of the investees	(209,893)	346,895	-	137,002
Net increase and decrease of fair value of available-for-sale financial assets	(172,399)	52,830	-	(119,569)
Income tax effect of changes in fair value of available-for-sale financial assets	(32,699)	-	(2,386)	(35,085)
Others (1)	13,559	-	(1,182)	12,377
Total	810,934	399,725	(3,568)	1,207,091

- (1) Since the subsidiaries of the Company have acquired minority shares in order to obtain new long-term equity investments; they are entitled to the capital reserves-adjusted spread calculated continuously since the acquisition by the subsidiary based on the ratio of additional shareholdings.

	2012			
	<u>1 January</u>	<u>Increase in the current year</u>	<u>Decrease in the current year</u>	<u>31 December</u>
Share premium	1,212,366	-	-	1,212,366
Other changes in equity of the investees	155,458	-	(365,351)	(209,893)
Net increase and decrease of fair value of available-for-sale financial assets	37,078	-	(209,477)	(172,399)
Income tax effect of changes in fair value of available-for-sale financial assets	(16,404)	-	(16,295)	(32,699)
Reserves transfer into capital	5,918,338	-	(5,918,338)	-
Revaluation of assets	-	6,081,694	(6,081,694)	-
Others	13,559	-	-	13,559
Total	7,320,395	6,081,694	(12,591,155)	810,934

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

32. Capital reserves – continued

The Company

	2013		
	<u>1 January</u>	<u>Increase in the current year</u>	<u>Decrease in the current year</u>
Other changes in equity of the investees	(221,547)	337,604	-
Net increase and decrease of fair value of available-for-sale financial assets	(258,470)	206,114	-
Income tax effect of changes in fair value of available-for-sale financial assets	-	-	(56,199)
Total	<u>(480,017)</u>	<u>543,718</u>	<u>(56,199)</u>

	2012 年		
	<u>1 January</u>	<u>Increase in the current year</u>	<u>Decrease in the current year</u>
Other changes in equity of the investees	137,771	-	(359,318)
Net increase and decrease of fair value of available-for-sale financial assets	(7,162)	-	(251,308)
Reserves transfer into capital	5,918,338	-	(5,918,338)
Revaluation of assets	-	6,081,694	(6,081,694)
Total	<u>6,048,947</u>	<u>6,081,694</u>	<u>(12,610,658)</u>

33. Surplus reserves

In accordance with relevant laws in PRC, the Company and its subsidiaries are required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve since the incorporation of the shareholding company in 2012. Appropriation to the statutory surplus reserves may cease when the balance of such reserve has reached 50% of the share capital of the respective entity.

34. General reserves

Starting from 1 July 2012 and onwards, pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the MOF, the Company is required to maintain a general reserve at no less than 1.5% of its risk assets at the end of the reporting period, and the minimum threshold can be accumulated over a period of no more than five years.

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

35. Retained earnings

	The Group		The Company	
	2013	2012	2013	2012
At beginning of the year	7,113,233	9,287,350	6,366,042	5,951,007
Net profit for the year	8,659,592	5,892,163	5,848,663	4,166,919
Appropriation to surplus reserves	(584,866)	(416,046)	(584,866)	(416,046)
Appropriation to general reserves (1)	(1,546,510)	-	(1,546,510)	-
Dividends recognised as distribution (1)	(1,248,139)	-	(1,248,139)	-
Others (2)	(15,821)	-	-	-
Reserves transfer into capital	-	(3,335,838)	-	(3,335,838)
Revaluation of assets	-	(4,314,396)	-	-
At end of the year (3)	12,377,489	7,113,233	8,835,190	6,366,042

- (1) At the General Meeting held on 24 May 2013, the Company's shareholders passed the resolution for the Profit Distribution Plan for China Huarong Asset Management Co Ltd in 2012. According to the resolution, the Company appropriated a general reserve of RMB 1,547 million and distributed dividends of RMB 1,248 million to the shareholders.

On 31 December 2013, the above appropriated general reserves and dividends are recognised in the statements of financial position.

- (2) At the General Meeting held on 26 July 2013, shareholders of the Company's subsidiary, Huarong International Trust Co Ltd, passed the resolution for the Proposal to Make Profit and Bonus Payment to the Original Shareholders of SDIC During the Period of Restructuring. According to the resolution, cash dividends of RMB 16,227,200 were paid to minority interests, which include appropriation of RMB 15,821,500 from the retained earnings attributable to the parent company to be distributed to the minority interests.
- (3) On 31 December 2013, the balance of retained earnings of the Group includes the surplus reserves appropriated by the subsidiaries of RMB 1,046 million (31 December 2012: RMB 682 million).
- (4) On 31 December 2013, the balance of retained earnings of the Group includes the general reserves appropriated by the subsidiaries of RMB 1,639 million (31 December 2012: RMB 964 million).
- (5) Profit distribution in 2013

On 28 April 2014, the Board reviewed, passed and submitted the following proposals for profit distribution in 2013 of the Company to the shareholders at the general meeting:

- (i) To appropriate RMB 585 million from statutory surplus reserves;
- (ii) To appropriate RMB 632 million from general reserves;
- (iii) In 2013, distribute cash dividends to all shareholders with a total amount of RMB 1,755 million based on the number of shares issued, i.e. 25,836 million shares.

As of 31 December 2013, the appropriation from statutory surplus reserves has been recognised in surplus reserves, while the other two proposals for profit distribution were recognised in the Company and the Group's financial statements upon approval from the Company's shareholders at the general meeting.



CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

36. Income from principal business

	The Group		The Company	
	2013	2012	2013	2012
Income from asset management business	13,103,688	6,361,599	13,103,688	6,361,599
- Distressed debts designated as at fair value	893,132	353,710	893,132	353,710
- Distressed debts accounted as debts classified as receivables	8,850,155	4,626,394	8,850,155	4,626,394
- Policy-related debt-to-equity swaps	3,360,401	1,381,495	3,360,401	1,381,495
Net income from leasing	2,000,138	1,783,948	-	-
Net interest income from banking	1,865,519	1,738,618	-	-
Net fee and commission from securities	559,338	308,433	-	-
Net interest income from trusts	20,102	20,859	-	-
Others	5,694	18,620	-	-
Total	17,554,479	10,232,077	13,103,688	6,361,599

37. Net income from intermediary businesses

	The Group		The Company	
	2013	2012	2013	2012
Fee income				
Asset management	3,537,154	3,231,526	3,658,253	3,533,684
Trusts	1,718,760	1,344,439	-	-
Banking	776,792	218,240	-	-
Fund management	90,054	55,034	-	-
Subtotal	6,122,760	4,849,239	3,658,253	3,533,684
Fee expense				
Asset management	(189,094)	(102,419)	(226,068)	(165,218)
Banking	(36,025)	(21,913)	-	-
Leasing	(846)	(508)	-	-
Subtotal	(225,965)	(124,840)	(226,068)	(165,218)
Total	5,896,795	4,724,399	3,432,185	3,368,466

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NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

38. Investment income

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Held-to-maturity investments	398,072	361,923	-	-
Debts classified as receivables	3,603,506	2,751,494	1,053,890	797,424
Available-for-sale financial assets	741,823	561,050	363,718	204,797
Held-for-trading financial assets	723,999	292,890	-	-
Long-term equity investments				
- Dividends declared by investee accounted for at cost	122,458	17,872	1,016,133	673,654
- Income recognised at equity	902	118,008	2,254	96,031
- Income from disposal of long-term equity investments	29,187	193,408	16,933	191,300
Total	<u>5,619,947</u>	<u>4,296,645</u>	<u>2,452,928</u>	<u>1,963,206</u>

39. Profit or loss from fair value changes

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Held for trading financial assets				
- Stock	49,785	35,626	-	-
- Fund	330	95,630	-	-
- Bond and others	(26,833)	14,084	-	-
Financial assets designated as at FVTPL				
- Acquisition of distressed assets	(384,053)	(103,872)	(384,053)	(103,872)
- Wealth management products	133,807	-	-	-
Total	<u>(226,964)</u>	<u>41,468</u>	<u>(384,053)</u>	<u>(103,872)</u>

40. Other income

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Income from leasing	90,202	116,247	60,922	77,263
Net interest income from securities	71,803	46,732	-	-
Others	277,560	195,905	59,228	103,695
Total	<u>439,565</u>	<u>358,884</u>	<u>120,150</u>	<u>180,958</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

41. Business tax and surcharges

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Business tax	1,231,989	919,297	649,687	463,489
Urban maintenance and construction tax	85,234	62,992	45,427	32,091
Education surcharge and others	63,684	47,215	34,914	24,160
Total	<u>1,380,907</u>	<u>1,029,504</u>	<u>730,028</u>	<u>519,740</u>

42. Business and management fees

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Staff costs (1)	3,176,097	1,985,819	973,888	669,612
Depreciation and amortisation	366,396	406,900	150,930	238,700
Other operation expenses	1,500,906	1,400,282	677,024	529,112
Total	<u>5,043,399</u>	<u>3,793,001</u>	<u>1,801,842</u>	<u>1,437,424</u>

(1) Staff costs

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Wages or salaries, bonuses, Allowances and subsidies	2,395,695	1,488,408	607,410	497,959
Staff welfare	143,423	112,331	33,675	25,235
Social insurance	257,143	175,931	78,880	66,793
Housing funds	155,207	111,874	49,059	37,323
Labor union and staff education fees	89,876	62,378	27,334	22,395
Annuity Scheme	25,155	-	25,155	-
Retirement benefits	85,302	14,990	128,079	-
Others	24,296	19,907	24,296	19,907
Total	<u>3,176,097</u>	<u>1,985,819</u>	<u>973,888</u>	<u>669,612</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

43. Impairment losses on assets

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Debts classified as receivables	3,631,030	2,224,879	3,507,255	2,113,403
Available-for-sale financial assets (1)	785,435	(104,204)	808,239	-
Loans and advances	268,572	107,989	-	-
Finance lease receivables	46,168	84,576	-	-
Fixed assets	24,792	-	-	-
Allowance for bad debts	24,762	(11,633)	-	9
Assets in satisfaction of debts	-	1,579	-	-
Total	<u>4,780,759</u>	<u>2,303,186</u>	<u>4,315,494</u>	<u>2,113,412</u>

- (1) In 2013, decrease in value of the equity investments held by the Group continues and it is expected reversal of such investment is impossible within a short period of time; therefore the Group transfer such amount from other comprehensive income to impairment losses on assets.

44. Other operating costs

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net interest expenses	4,795,491	2,945,592	4,195,619	2,669,432
Income entitled by the other owners of consolidated structured entities	554,754	570,988	-	-
Depreciation of investment properties	22,424	12,529	13,421	3,355
Others	96,301	60,584	4,226	17,130
Total	<u>5,468,970</u>	<u>3,589,693</u>	<u>4,213,266</u>	<u>2,689,917</u>

45. Non-operating income

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Income from land replacement	918,758	-	-	-
Government subsidies	64,180	32,370	-	159
Disposal of fixed assets, intangible assets and other assets	34,399	18,960	392	1,780
Others	28,623	131,310	29,491	122,248
Total	<u>1,045,960</u>	<u>182,640</u>	<u>29,883</u>	<u>124,187</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

46. Income tax expenses

	<u>The Group</u>		<u>the Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current income tax	4,565,725	2,845,653	2,775,855	1,685,558
Deferred income tax	(1,019,168)	(722,797)	(934,969)	(722,737)
Total	<u>3,546,557</u>	<u>2,122,856</u>	<u>1,840,886</u>	<u>962,821</u>

	<u>The Group</u>		<u>the Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Profit before tax	13,639,746	9,109,410	7,689,549	5,129,740
Taxation at the statutory tax rate of 25%	3,409,937	2,277,353	1,922,387	1,282,435
Tax effect of fees not deductible for tax purpose	331,046	203,071	252,259	103,535
Tax effect of income not taxable for tax purpose (1)	(178,986)	(201,210)	(333,760)	(287,315)
Effect from different tax rate of institutions operating in offshore jurisdictions	(2,642)	-	-	-
Others	(12,798)	(156,358)	-	(135,834)
Total	<u>3,546,557</u>	<u>2,122,856</u>	<u>1,840,886</u>	<u>962,821</u>

(1) Income not taxable mainly comprises of interest income and dividend income from China treasury bond.

47. Other comprehensive income

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Other changes in owners' equity of				
Investee other than the net profit or loss	346,895	(367,880)	337,604	(359,318)
Changes in fair value of available-for-sale financial assets	(14,640)	(205,746)	206,114	(251,308)
- FVTPL	(370,488)	(179,963)	(341,746)	(236,071)
- Transfer into current income upon disposal/impairment	355,848	(25,783)	547,860	(15,237)
Fair value of available-for-sale financial assets				
Income tax effect of changes	(2,386)	(16,295)	(56,199)	-
Exchange difference from foreign currency translation	(1,286)	-	-	-
Total	<u>328,583</u>	<u>(589,921)</u>	<u>487,519</u>	<u>(610,626)</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

48. Cash and cash equivalents

	<u>The Group</u>		<u>The Company</u>	
	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Cash and bank balances	21,014,542	14,918,526	13,107,269	10,345,515
Deposits with the central bank ready for payment	4,053,889	3,525,539	-	-
Financial assets with maturity of less than 3 months:				
- Placements with banks and financial institutions	4,826,014	911,818	3,800,000	-
- Financial assets held under resale agreements	21,991,196	11,560,543	544,000	138,600
Total	<u>51,885,641</u>	<u>30,916,426</u>	<u>17,451,269</u>	<u>10,484,115</u>

49. Supplementary information of cash flows

	<u>The Group</u>		<u>The Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Reconciliation of net profit to cash flows from operating activities:				
Net profit	10,093,189	6,986,554	5,848,663	4,166,919
Add: Impairment losses on assets	4,780,759	2,303,186	4,315,494	2,113,412
Depreciation of fixed assets	321,585	377,274	142,460	228,774
Depreciation of investment properties	22,424	12,529	13,421	3,355
Amortisation of intangible assets and long-term deferred charges	44,811	29,626	8,470	9,926
Profit or loss arising from disposal of fixed assets, intangible assets and other long-term assets	(33,406)	(18,791)	(391)	(1,756)
Investment income	(3,182,047)	(2,999,377)	(2,452,928)	(1,963,206)
Interest expenses on bonds issued	265,589	111,308	122,733	-
Profit or loss from changes in fair value	226,964	(41,468)	384,053	103,872
Gain/loss in foreign currency exchange	793	65	-	(264)
Changes in deferred income tax	(1,019,168)	(722,797)	(934,969)	(722,737)
Changes in operating receivables	(59,154,493)	(56,403,855)	(43,658,099)	(23,027,323)
Changes in operating payables	62,222,591	54,716,243	28,319,534	20,543,529
Net cash flows arising from operating activities	<u>14,589,591</u>	<u>4,350,497</u>	<u>(7,891,559)</u>	<u>1,454,501</u>
Net change in cash and cash equivalents				
Balance of cash and cash equivalents at end of the year	51,885,641	30,916,426	17,451,269	10,484,115
Less: Balance of cash and cash equivalents at beginning of the year	30,916,426	20,827,251	10,484,115	7,934,161
Net change in cash and cash equivalents	<u>20,969,215</u>	<u>10,089,175</u>	<u>6,967,154</u>	<u>2,549,954</u>

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IX. NOTES TO THE FINANCIAL STATEMENTS - continued

50. Assets with restricted ownership

- (1) At the end of the reporting period, carrying amounts of assets pledged as collateral for borrowings are as follows:

The Group

	<u>Items</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Finance lease receivables	Lease receivables	25,682,072	26,261,553
Debts classified as receivables	Entrusted loans	-	700,000
Other assets	Inventories	<u>1,936,107</u>	<u>595,322</u>

- (2) At the end of the reporting period, carrying amounts of assets pledged as collateral under repurchase agreements are:

The Group

	<u>Items</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Finance lease receivables	Lease receivables	8,296,922	12,651,600
Financial assets held under resale agreements	Bills	27,869,832	37,860,359
Held-to-maturity investments	Bonds	957,000	2,500,000
Placements with banks and financial institutions	Securities lending	<u>300,000</u>	<u>-</u>

- (3) As of 31 December 2013, securities lending provided by the Group's subsidiary, Huarong Securities, amounted to RMB 7,225,000 (31 December 2012: Nil).

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NOTES TO THE FINANCIAL STATEMENTS  
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Ministry of Finance

As at 31 December 2013, the MOF directly owned 98.06% (31 December 2012: 98/06%) of share capital of the Company.

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 or regulated by the MOF are mainly financial institutions. The Group does not include any company which is not controlled or jointly controlled by the MOF but exercises significant influence as the Group's related party.

(1) The Group had the following balances with the MOF:

	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Accounts payable to the MOF (Note IX.22)	15,103,409	21,988,616
Treasury bonds issued held by the Group	<u>6,075,263</u>	<u>6,468,068</u>

(2) The Group has entered into the following transactions with the MOF:

	<u>2013</u>	<u>2012</u>
Other operating costs	361,661	134,017
Investment income	<u>199,333</u>	<u>198,351</u>

2. Subsidiaries of the Company

Subsidiaries are the related parties which are controlled by the Company, details of the major subsidiaries are set out in Note VIII. Transactions between the Company and the major subsidiaries are based on ordinary business terms, where pricing is based on the ordinary transaction prices, and conducted in ordinary business course.

(1) The Group had the following balances with its controlling subsidiaries

	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
Accounts receivables from subsidiaries	1,338,000	2,338,000
Placements to subsidiaries	1,200,000	-
Debts classified as receivables	-	400,000
Bonds issued (Note IX.28)	400,000	-
Interests payable	<u>2,481</u>	<u>-</u>



CHINA HUARONG ASSET MANAGEMENT CO. LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

(RMB '000 unless specified otherwise)

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS – continued

2. Controlling subsidiaries of the Company – continued

(2) The Group has entered into the following transaction with its controlling subsidiaries

	<u>2013</u>	<u>2012</u>
Net income from intermediary business	382,693	569,246
Investment income	11,361	34,454
Business and management fees	130,319	101,661
Income from investment due from subsidiaries	98,712	221,842
Other operating costs	<u>2,481</u>	<u>-</u>

3. Related parties with no controlling relationship

Related parties with no controlling relationship are joint ventures of the Group. Transactions between the Group and the related parties with no controlling relationship are based on ordinary business terms, where pricing is based on the ordinary transaction prices, and conducted in ordinary business course. There is no significant transaction between the Group and the joint ventures.

4. Annuity Scheme

There is no other related transaction in 2013 other than normal contribution to the Corporate Annuity Scheme set up by the Group and the Company.

XI. Non-adjusting events after the end of the reporting period

The Group does not have any significant non-adjusting event beyond the balance sheet date.

XII. Approval of financial statements

The financial statements have been approved by the Company's board of directors on 28 April 2014.

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