

LUCION

山東省國際信託股份有限公司

Shandong International Trust Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 1697

**2017
ANNUAL REPORT**



1987-2017



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IMPORTANT NOTICE

The Board, the Board of Supervisors and the Directors, Supervisors and senior management of Shandong International Trust Co., Ltd., warrant the truthfulness, accuracy and completeness of the content of this annual report and that there are no false representations, misleading statements contained in or material omissions from this report, and severally and jointly assume legal responsibility.

Mr. Yen Huai-chiang, Mr. Ding Huiping and Ms. Meng Rujing, being the independent non-executive Directors of the Company, have no objection to the truthfulness, accuracy and completeness of the content of this annual report.

On 22 March 2018, the first session Board of the Company held the twenty-fourth meeting, during which the 2017 annual report (2017 annual results announcement) of the Company was considered and has been approved. There were seven Directors eligible to attend the meeting, seven of whom attended in person.

The 2017 financial report, which has been prepared by the Company according to the Chinese Accounting Standards and IFRS, respectively, was audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) and PricewaterhouseCoopers in accordance with the Chinese and International standards on auditing, respectively, and they have issued the standard audit reports without qualified opinion.

The Board of the Company proposed a distribution of cash dividend of RMB0.173 per share (tax inclusive) for 2017 to its shareholders. The profit distribution plan will be proposed at the 2017 annual general meeting for consideration.

Ms. Wang Yingli, the legal representative of the Company, Mr. Ma Wenbo, the Chief Financial Officer who is in charge of the major financial matters, and Mr. Sun Jiabao, the person in charge of the finance department, warrant that the financial statements in this annual report are true, accurate and complete.

**The Board of
Shandong International Trust Co., Ltd.**

22 March 2018

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

Where there is any inconsistency between the Chinese version and the English version of this annual report (except for the independent auditor's report and the consolidated financial statements), the Chinese version shall prevail.

COMPANY PROFILE

Shandong International Trust Co., Ltd., formerly known as “Shandong International Trust Corporation”, was established as a non-banking financial institution in March 1987, with the approval of the People’s Bank of China and the People’s Government of Shandong Province. In August 2007, the Company changed its name to “Shandong International Trust Corporation” after acquiring the new financial business permit from the CBRC. The Company was converted into a joint stock company with limited liability in July 2015, and changed its name to “Shandong International Trust Co., Ltd.”. The Company is currently a director member of the China Trustee Association. In December 2017, the Company was listed on the Main Board of the Hong Kong Stock Exchange and the Company became the first trust company in the PRC which was listed on the Hong Kong Stock Exchange.

Since the Company was founded, the Company has been devoted to serving economic society growth by applying trust platform and developing the ability of entrusted asset management. Through building platforms for wealth management and investment and financing services, the Company provides professional, differential personalised and integrated financial services for numerous investors, and offers quality investment and financing services for the development of national and local economies.

The Company aims at establishing its image as a first-class professional asset management service provider and an outstanding integrated financial service provider. The Company has become an integrated financial service institution with the major businesses of financing trust, investment trust and administrative management trusts with various investment forms including loan, equity investment, asset securitisation, income right securitisation and financial leasing. The Company has a pool of quality corporate partners and loyal clientele with high net worth and has formed regulatory company governance system. The Company has developed proper corporate governance systems, growing comprehensive strength and increasing profitability with a good social reputation and brand influence.

In respect of long-term equity investments, the Company puts emphasis on its financial industry policy to promote an integrated financial service platform. The Company has invested in several financial institutions, such as First-Trust Fund Management Co., Ltd., Fullgoal Fund Management Co., Ltd., Minsheng Securities, Taishan Insurance, Dezhou Bank and Shandong Howo Auto Finance.

The growth of the Company in recent years has been recognised and praised by different sectors in the society. In the assessment of the trust industry conducted by the China Trustee Association for the years of 2015 and 2016, the Company was awarded with the highest rating of Class A for two consecutive years. The Company was successively awarded more than 20 national and industrial awards, including the “Integrity Trust – Excellent Company Award”, “Integrity Trust – Management Team Award”, “Best Innovative Trust Company”, “Best Socially Responsible Trust Company Award”, “Best Financial Service Entity Award”, “Excellence Risk Control Award”, “Trust Company with the Greatest Regional Influence in China” and “Best Wealth Management Trust Company”. As a state-owned enterprise in Shandong, the Company received high recognition in the province for its development and was awarded the honorary title of Advanced Company Contributing to Financial Development of Shandong Province by the government of Shandong province. Also, the Company has won the “Financial Innovation Award of Shandong Province” for three consecutive years. The Company was awarded with the highest rating of Grade AAA for five consecutive years in assessment of provincial corporate financial performance conducted by the Shandong Provincial Bureau of Finance.

BASIC CORPORATE INFORMATION

Legal name (in Chinese)	山東省國際信託股份有限公司
Abbreviation in Chinese	山東信託
Legal name (in English)	Shandong International Trust Co., Ltd.
Abbreviation in English	SITC
Legal representative	Wang Yingli (王映黎)
Authorised representatives	Wan Zhong (萬眾) Lai Siu Kuen (黎少娟)
Secretary to the Board	He Chuangye (賀創業)
Joint company secretaries	He Chuangye (賀創業) Lai Siu Kuen (黎少娟)
Registered office	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Postal code	250013
Head office in the PRC	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Postal Code	250013
E-mail address	ir1697@luxin.cn
Internet website	http://www.sitic.com.cn
Principal place of business in Hong Kong	36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Senior management responsible for information disclosure	He Chuangye (賀創業)

BASIC CORPORATE INFORMATION

Contact person for information disclosure matter	Yuan Fang (袁方)
Telephone number	(0531) 86566593
Facsimile number	(0531) 86566593
E-mail address	ir1697@luxin.cn
Media for information disclosure	Shanghai Securities News
Website of Hong Kong Stock Exchange for publishing the annual report for H Shares	www.hkexnews.hk
Place for maintaining annual report	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	SITC
Stock code	1697
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Audit Committee	Ding Huiping (丁慧平) (<i>Chairperson</i>) Jin Tongshui (金同水) Meng Rujing (孟茹靜)
Business Decision Committee	Wang Yingli (王映黎) (<i>Chairperson</i>) Wan Zhong (萬眾) Jin Tongshui (金同水)
Human Resources and Nomination Committee	Wang Yingli (王映黎) (<i>Chairperson</i>) Ding Huiping (丁慧平) Meng Rujing (孟茹靜)
Remuneration Committee	Meng Rujing (孟茹靜) (<i>Chairperson</i>) Wan Zhong (萬眾) Yen Huai-chiang (顏懷江)

BASIC CORPORATE INFORMATION

Strategies and Risk Management Committee	Wang Yingli (王映黎) (<i>Chairperson</i>) Wan Zhong (萬眾) Xiao Hua (肖華)
Trust Committee	Yen Huai-chiang (顏懷江) (<i>Chairperson</i>) Ding Huiping (丁慧平) Jin Tongshui (金同水)
Legal Advisor (as to PRC laws) Place of business	Fangda Partners 24/F, HKRI Centre Two, HKRI Taikoo Hui 288 Shi Men Yi Road Shanghai, PRC
Legal Advisor (as to Hong Kong laws) Place of business	Peter Yuen & Associates (in association with Fangda Partners) 26th Floor, One Exchange Square 8 Connaught Place Central, Hong Kong
International Auditor Place of business	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central, Hong Kong
PRC Auditor Place of business	PricewaterhouseCoopers Zhong Tian LLP PricewaterhouseCoopers Center, 2 Corporate Avenue 202 Hu Bin Road, Huangpu District Shanghai, PRC
Name of the undersigned accountant	Hu Liang (胡亮), Zhu Huirong (朱慧蓉)
Compliance Advisor Place of business	Haitong International Capital Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Principal Bank	China Citic Bank Quancheng Road Sub-branch No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

MAJOR FINANCIAL INDICATORS

FINANCIAL DATA

	As at and for the year ended 31 December				
	2017	2016	2015	2014	2013
Data at the end of the reporting period (RMB in millions)					
Total assets	12,902	8,648	8,171	7,635	6,928
Fee and commission income	1,130	828	1,052	1,285	1,179
Interest income	491	455	461	384	305
Total operating income	1,648	1,327	1,786	1,766	1,537
Change in net asset attributable to other holders of consolidated structured entities	2	1	–	2	(12)
Total operating expenses	696	389	615	575	471
Operating profit before income tax	1,119	1,077	1,346	1,286	1,144
Segment assets					
Proprietary business	11,655	7,557	6,711	6,332	4,959
Trust business	1,202	912	1,206	1,083	1,940
Unallocated assets ⁽¹⁾	45	179	254	220	29
Segment liabilities					
Proprietary business	3,715	2,220	1,529	1,800	1,708
Trust business	38	85	21	42	1,253
Unallocated assets ⁽¹⁾	2	2	623	396	291

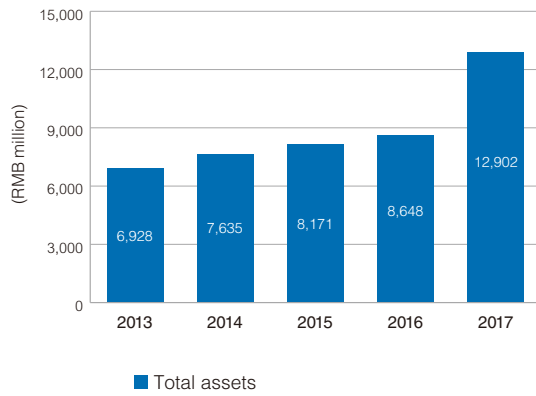
Note:

(1) It refers to the assets and liabilities shared by the proprietary business and trust business.

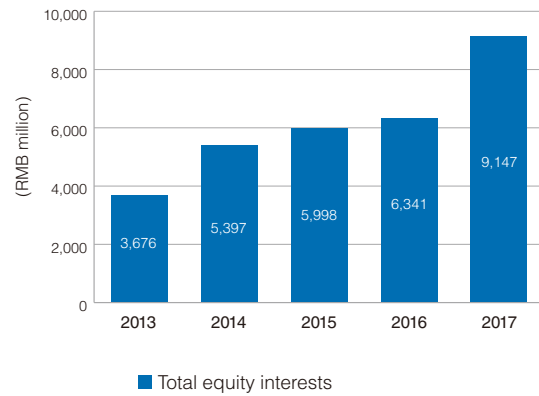
MAJOR FINANCIAL INDICATORS

FINANCIAL INDICATORS

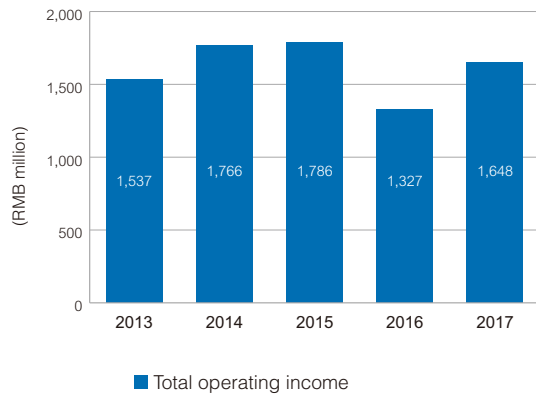
Total assets



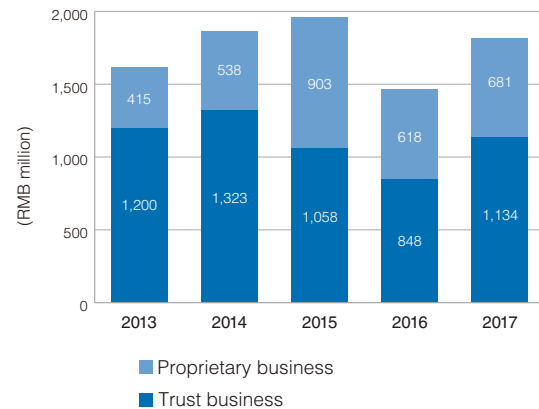
Total equity interests



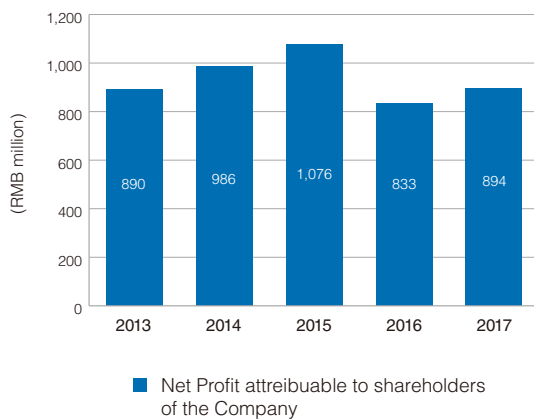
Total operating income



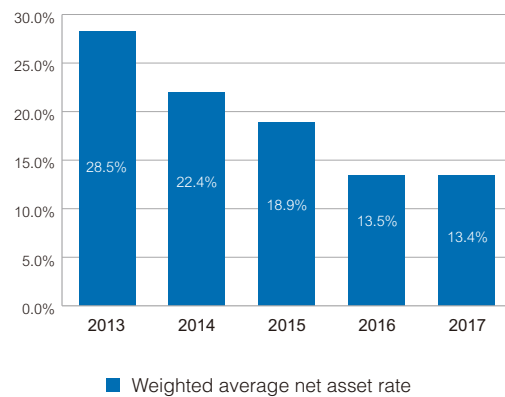
Income in business segment



Net profit attributable to shareholders of the Company



Weighted average net asset rate



2017 MAJOR EVENTS

January

Rated **the highest rating AAA** in the performance assessment of local financial institutions in Shandong

May

Attaining **the highest Class A** rating in the trust industry

Awarded "Integrity Trust – Excellent Company Award" in 2016



August

Releasing the first consumer trust product, Gome small loan trust scheme, launching the first family charity trust

December

Successfully listed on the Main Board of the Hong Kong Stock Exchange



April

Launching the operation of large-scale operating management mode, exploring "investment management separation" of OTC management for trust business

July

Successfully filing the first charity trust in Shandong Province

Awarded **Best Wealth Management Trust Company in 2017**



The "Wealth Succession Family Trust" recognised as the **"Best Family Trust Scheme 2017"**



CHAIRPERSON'S STATEMENT



The year of 2017 was an extraordinary year in the history of SITC. Established in 1987, the Company has experienced ups and downs and witnessed various major reforms of China's trust industry. With a firm determination, it has developed into an integrated financial and wealth management service provider with leading position, high reputation and strong regional influence. At its 30th anniversary, the Company was listed on the Main Board of the Hong Kong Stock Exchange, becoming the first China-based trust company that completed overseas initial public offering and infusing new vitality to Hong Kong's capital market. Without the strong support from different parties such as the former and present Shareholders and Directors, governmental departments, regulatory authorities and business partners, we would not have such remarkable achievements. On behalf of SITC, I would like to extend our sincerest gratitude for people from all sectors who have been caring and supporting us.

CHAIRPERSON'S STATEMENT

In 2017, with the keynote of achieving steady growth, we strove for transformation and innovation and had realised business development whilst preparing for the listing. We had improved corporate governance and strengthened internal management, effectively controlled risks, supported the real economy and restored the original trust business. The Company had developed in different areas, such as the trust business, proprietary business, marketing and distribution and internal operation, developed a dynamic of "multiple sources with two during forces" and realised a significantly more optimised trust business structure, a more refined proprietary investment management and a significantly more improved proprietary marketing capability. Recording RMB894 million of net profit attributable to the Shareholders (representing a year-on-year increase of 7.4%) and 13.4% of return on equity for the Shareholders, the Company had presented a sound operating result to the Shareholders. Meanwhile, SITC had earned a number of honors, including the rating of Class A (the highest rating in the trust industry in China) and the rating of Excellent (Class AAA) for five consecutive years in assessment of local corporate financial performance conducted by the Shandong Provincial Bureau of Finance.

In 2018, despite the external challenges (including the transformations of and adjustments to the real economy, stricter risk control and regulatory policies in the financial sector, and increasing uncertainties in the market), we will embrace more opportunities. As people are getting wealthier, the asset management market will expand; the trust industry will become mature and will have an edge in competition. The cultivation of new growth drivers for replacement of old ones in Shandong Province will release great market potential, and the Hong Kong capital market will offer us more possibilities. Riding on the momentum, SITC will meet the challenges with prudence and seize every opportunity. It will align its development strategies with market development, reinforce talent cultivation, deepen system optimisation and reform, advance brand building and accelerate internationalisation. With the advanced trust system and its strong functions, the respect to talents and the engine of innovation, the Company is well prepared for future development, and it will strive to build core competitiveness and to reach a new peak in transformation and development.

From shore to shore it seems wide at high tide, before fair wind a single sail is lifting. Standing at a new platform and a new starting point, we will uphold the core values of "professional, honest, diligent and accomplishing", blaze new trails and take a pragmatic approach, so as to create greater value for investors, clients and staff and to grow with them.



Wang Yingli

Chairperson of the Board

22 March 2018

GENERAL MANAGER'S STATEMENT



2017 was a milestone year in the development history of SITC. On one hand, the Company focused on the preparation for the listing and was successfully listed on the Main Board of the Hong Kong Stock Exchange, realising historic breakthrough in the initial public offering of the trust industry; on the other hand, the Company focused on operation and management, vigorously promoted transformation, innovation and benchmarking, and accomplished the business tasks determined by the Board. The Company has achieved “double harvest” in listing and business development.

As at the end of 2017, the total amount of consolidated assets of the Company was RMB12,902 million; the total liabilities were RMB3,755 million; the owner's interests were RMB9,147 million; the total consolidated profit achieved throughout the year was RMB1,119 million and the net profit was RMB894 million. The entrusted AUM of the Company, amounted to RMB263,408 million, among which actively entrusted AUM amounted to RMB77,959 million, accounting for 29.6% and representing an increase of 5.3 percentage points as compared with the beginning of the year.

GENERAL MANAGER'S STATEMENT

It is not easy to achieve the accomplishments mentioned above, which is the results of the appropriate leadership by the Party Committee and the Board of SITC, harmonious cooperation and joint efforts by all staff of the Company, as well as coordination and guidance of the provincial committee and provincial government in Shandong province, tremendous support of the CBRC and CSRC, coordination and cooperation by shareholders and sufficient trust of public customers and investors. Hereby, on behalf of the senior management of the Company, I would like to express my heartfelt gratitude to the friends from all walks of life who have long cared and supported the development of SITC.

In 2017 – the year of benchmarking and exploring potentials, guided by various indicators of regulation and industry ratings, SITC continued to promote the establishment of risk control and compliance systems, strengthened the operational management of “separation of investment and management” and the construction of information technology and digitalisation system. The new kinetic energy of internal control management has been continuously stimulated. The Company made great efforts in promoting the transformation and innovation to a higher level and a wider area. The principal trust business has shown a good momentum of development. The traditional business focused on cultivating new models and the advantages have been reinforced. The innovative business focused on the allocation of major categories of assets and the exploration and layout in multiple areas. The integration of industry and finance has achieved preliminary results, and active management capacities of the Company have significantly improved. Family trust assets are more diversified, and its value function further moved towards the inheritance of family traditions, which secured the Company's leadership in the industry. The pattern and business model of charity and public welfare trusts gradually evolved towards branding, scaling, and integration and upgrade with family trusts. PPP trusts, consumer trusts, and Zilan cultural trust products have been launched one after another and have achieved good social benefits. The Company attached great importance to the protection work of consumers' interests, and developed sound protection mechanism for consumers' interests to realise protection of consumers' interests and coordinate development of the Company's operation.

Those who achieved the age of thirty shall stand firm and ensure stable and long-term development. In 2018, the management of the Company will work with all employees to meet the challenge, strive for internal strength, continue to implement the strategic plans of the Party Committee and stick to the strategy of achieving progress while maintaining stability. The Company will base itself in the year of “Integration of finance and industry”, seize opportunities in the conversion of new and old drivers of economic growth, strengthen the integration of industry and finance and support the real economy; sufficiently leverage the advantage of trust, enhance the brand of competitive businesses, and continue to return to the origin of trust; make good use of Hong Kong's listing platform, engage in global resources with trust, and actively deploy overseas businesses; focusing on “product specialisation, service integration, and business standardisation”, the Company will improve its core asset management expertise and reward the Shareholders and the society with better performance.

Looking ahead to the new year, let us work together hand in hand to make progress, innovate and achieve new breakthroughs!



Wan Zhong
General Manager

22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENT AND PROSPECTS

In 2017, the global economy experienced an accelerated growth and recorded the most outstanding performance in recent years. A synchronised recovery was seen in developed economies with relatively rapid growth in emerging markets and a pick-up in global trade and economic activities. However, the economy has yet to fully recovered and the regional disparity was still relatively large. In 2017, China's economy showed a positive trend with stable operation, optimised structure, change in growth drivers, improved quality and enhanced efficiency while revealing economic vitality, dynamics and potentials as well as achieving a significant growth in stability, coordination and sustainability, which contributed to a stable and healthy development of the economy.

In 2017, under the continuous steady growth in the macro-economy, the trust industry in the PRC provided great support to the real economy, proactively explored in transformation and innovation, solidified risk control system, continued to enhance development effectiveness and maintained a favourable momentum with solid growth. By the end of the third quarter, the AUM of the entire industry amounted to RMB24.41 trillion. Since the implementation of "One Law and Two Measures" in 2007, the trust industry has achieved a high growth in the past decade with continuously optimised internal structure of assets under management, increasing proprietary funds, stable enhancement of risk resistance capacity, controllable risk level and gradually mature establishment of industry foundations. The trust industry has become an essential driving force in supporting the real economy and an important part of the financial system.

In 2018, the global economy is expected to further recover. Major developed countries will continue to recover while certain emerging economies will still be exposed to challenges with unsolved hidden risks in the financial market, intensified market fluctuation and greater influence of non-economic factors like geopolitics. 2018 will be a critical year to create a well-off society and a year to learn from past experience for better development in the future under the implementation of the "Thirteen Five-Year Plan". The PRC economy has transformed from a stage of rapid growth to a stage of high quality development, which is demonstrated by further intensified supply-side structural reform, change in development models, optimised economic structure and new growth drivers, and will bring greater vitality and more opportunities for development.

The speedy growth in economy over the years has contributed to the substantial growth in wealth of Chinese residents. There is increasing demand for wealth management, such as preservation and increment of asset value and family governance, and accordingly, demand for investment by HNWI. Comparing with developed countries, the financial market in the PRC is still undergoing its development stage and it is expected that the demand for financial services in monetary markets, capital markets and industrial markets will be further increased in the future. Such demand from the asset and capital sides, being one of the competitive strengths of the primary businesses of trust providers and serving as the key to maximise their value, will secure a broadened customer base for the future development of the trust industry and create extensive room for development.

Going forward, the financial industry of the PRC will undergo the stage of "risk prevention, deleveraging and stringent regulatory system" in order to serve the real economy in a more effective manner, which will also impose profound impact on the development of the trust industry. Under the regulatory guidelines issued by regulatory authorities, the trust industry will revisit the fundamentals as soon as it can, carry out comprehensive transformation and innovation and further enhance active and professional management capability. We believe that trust companies will further strengthen their position in the market amid intensified competition by leveraging their unique system, strong innovation ability, flexible financial instruments and outstanding expertise, and will get prepared for the new era of industry development.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company will closely focus on the “new normal” of the economy, keep abreast of changes in regulatory policies, precisely plan the strategic layout by emphasising three core strategies, namely “product specialisation, service integration and operation standardisation”, get a foothold in industrial investment banking, lay a solid foundation for industry strengths, strengthen the synergy between finance and industry, continue to enhance the ability of integrating financial and wealth management and give play to the first-mover edge of the Company as a listed company with an aim to furnish and strengthen driving forces for the sustainable development of the Company.

KEY TASKS FOR 2018

Based on the analysis and judgement on domestic and international economic and financial conditions, regulatory environment of the industry and peer competition in the asset management industry, and taking into consideration the actual condition of the Company, the Company intends to commence the following selected tasks in 2018.

Supporting emerging industries through combination of finance and industry and proactively promoting the change in growth drivers

The Company will capture the strategic opportunity of the establishment of Shandong Comprehensive Experimental Zone for New and Existing Kinetic Energy Conversion by focusing on the combination of finance and industry and emerging industries like information technology, high-end equipment, new energy and new materials, intelligent ocean and healthcare on the asset side. The Company will provide comprehensive financial service solutions for the development of the real economy through flexible use of various trust products, nurture and develop new driver for development and pursue high quality development of businesses of those companies.

Performing the role of advantageous businesses and promoting transformation and upgrade of traditional industries

The Company will provide support through its trust products to high-end chemical, modern and efficient agricultural, cultural and creative, premium tourism, modern finance and other traditional industries to allow these industries to develop into unique industry group targeting high-end, foundational and green development; fully leverage on the synergy created with Lucion Group and other province-administered enterprises, proactively connect capital, technologies and projects, further explore sources of strategic customers, and enhance customer’s loyalty; closely follow up the healthcare, elderly care, logistics and other relevant fields in which real estates involve, invest in business premises, apartments with long-term lease, medical and healthcare centers, industrial parks and other new industries through equity investment, industry funds, asset securitisation and other means while continue to expand the size of real estate trust under active management, hence building up differentiated competitive edge.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthening the establishment of network channel and increasing the capability of business expansion and sales

In light of the development trend of the domestic asset management industry, the Company will pay more efforts in marketing to institutional clients, aggressively expand the business scale of discretionary wealth management trusts, enhance the profitability of wealth management business, set up physical network of new wealth management centers in major cities and further increase marketing capability and the size of active sales; continue to strengthen strategic cooperation with commercial banks and other financial institutions and source new channels of placement agency; explore wealth management client resources, boost the synergy and interaction with the family trust business and other businesses and enhance customers' loyalty and brand loyalty; capture a suitable timing to set up regional business teams in major cities to perfect regional deployment.

Capitalising on the advantageous listing status in Hong Kong and stepping up global business layout

Being listed on the Hong Kong Stock Exchange, the Company is able to fully leverage its advantages as a listed company. It will actively obtain support from regulatory authorities, seek for the set-up of overseas subsidiaries, apply for foreign financial licenses when opportunities arise, step up the progress on global business layout, connect global resources with the driving force of the trust business and satisfy the investment and financing needs from domestic enterprises and HNWIs.

Expanding its financial instruments offerings, obtaining sufficient business qualifications as well as advancing the level of modern financial services

The Company will continue to devote its resources in the research on and investment in financial products, further enrich the use of trust assets and proprietary assets, make full use of its business qualification in asset securitisation and expand and optimise asset securitisation business; actively obtain support and permission from regulatory authorities and upgrade core functions such as value identification, investment management, asset allocation and wealth management by possessing qualifications to carry out innovative businesses, such as industrial investment, share price index futures and Qualified Domestic Institutional Investor QDII with an aim to advance the level of modern financial services.

Building a sound brand for family trust business and further solidifying industry-leading position

As the number of ultra HNWIs has been surging nationwide, the family trust business will face a blossoming prospect with huge room for development. The Company will continue to reinforce its horizontal cooperation with financial institutions, such as commercial banks, insurance companies, fully explore customer resources for the Company and broaden the customer base for the family trust business; be keen on establishing a mature and upgraded system for the family trust business in order to increase management efficiency and improve service quality; build a sound brand for the family trust business of the Company with a view to further solidify its leading position in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Maintaining a comprehensive and well-established protection mechanism and providing strategic support to sustainable development

The Company will further revise and improve its rules and regulations, continue to strengthen the establishment of compliance risk management system, and reinforce the baseline of risk prevention and control and compliance management; keep on reinforcing the interconnection between R&D and business to provide intellectual support to business transformation and innovation of the Company; further establish a well-developed system for operation and management information, enhance streamlined and scientific business operation and financial management; accelerate the progress on the establishment of informationalised and intellectual systems, nurture new growth drivers with intellectual approaches to create "intellectual trust"; and continue to introduce versatile talents with global vision, optimise human resources structure, promote the transition of human resources management to human capital management and provide strategic support to the sustainable development of the Company.



2017 Board of Directors and Board of Supervisors



2017 Annual Summary and Commendation Conference



Regular Business Seminar



Invite external experts for staff training

In March 2018, the Company has received the approval from the Shandong Office of CBRC, pursuant to which, the Company has obtained the qualification of engaging in equity investment business with proprietary assets. It will enable a more diversified and flexible utilisation of proprietary assets, improve the operation quality and efficiency of its proprietary assets, further enhance the financial service function as well as overall competitiveness of the Company, and represents a bold step to upgrade its level of providing modern financial services in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

As a trust company licensed by the CBRC, the Company is permitted to conduct businesses across a number of financial markets, including direct financing across the real economy, capital markets and money markets in the PRC. The Company was rated "Class A" (the highest rating attainable) in the industry-wide rating organised by the China Trustee Association (中國信託業協會) under the supervision of the CBRC for 2016 based on comprehensive assessment of the Company's capital strength, risk management, incremental value and social responsibility; such that the Company obtained the A rating for two consecutive years. The Company was rated "Excellent (AAA)" (the highest rating attainable) in the performance assessment of all local financial institutions in Shandong organised by the Shandong Provincial Finance Bureau (山東省財政廳) in 2017 based on comprehensive assessment of the Company's profitability, asset quality, liquidity and business growth; such that the Company was obtained the highest AAA rating for consecutive five years. Following a market-oriented approach, the Company closely monitors changes in the economic and market conditions in the PRC to identify market opportunities, and has timely and adeptly adjusted its development strategies to grow its business.

2017 was a year for strengthening the supply-side structural reform and an important year for the implementation of the "13th Five-Year Plan". As a financial service provider in the real economy, the Company further exerted its own institutional advantage, so as to promote steady and positive economic development. The Company continued to adhere to its operating model of combining product and financing, to enhance and upgrade business structure transformation, to improve the overall risk management system, to refine its wealth management capability, and to enhance its corporate culture and brand value. The Company was successfully listed on the Hong Kong Stock Exchange in the end of 2017 which became the first PRC trust company to be listed on the Hong Kong Stock Exchange, thus further enhancing the Company's brand and capital strength. The Company's business achieved a steady growth in 2017 with operating income of RMB1,647.9 million, representing a year-on-year increase of 24.1%, and net profit attributable to shareholders of the Company of RMB894.8 million, representing a year-on-year increase of 7.4%.

The Company's business segments are (i) trust business and (ii) proprietary business. Trust business is the Company's core business. As the trustee, the Company accepts entrustment of funds and/or property from its trustor clients and manages such entrusted funds and property to satisfy its trustor clients' investment and wealth management needs, as well as its counterparty clients' financing needs. The Company's proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business in order to maintain and increase the value of its proprietary assets.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth our segment income and its main components for the periods indicated:

	Year ended 31 December			
	2017		2016	
	Amount	%	Amount	%
<i>(RMB in thousands, apart from %)</i>				
Trust business				
Operating income	1,134,147	62.47%	847,996	57.86%
Segment income	1,134,147	62.47%	847,996	57.86%
Proprietary business				
Operating income	513,750	28.30%	479,385	32.71%
Share of profit of investments accounted for using the equity method	167,675	9.23%	138,248	9.43%
Segment income	681,425	37.53%	617,633	42.14%
Total	1,815,572	100.00%	1,465,629	100.00%

In 2017, the income from the trust business and proprietary business of the Company accounted for 62.5% and 37.5% of the total revenue of the Company, respectively.

Trust Business

In 2017, in response to the changes in economic and policy environment in the PRC, the Company adopted a series of measures to effectively promote the development of the Company's trust business. The first measure was to ride on the momentum to accelerate the transformation and upgrade of the Company's existing business, explore potential business opportunities in new areas, elevate its active management capability for financing trusts and improve its service quality; the second measure was to further raise the level of standardised operation of its traditional business, streamline procedure so as to improve operational efficiency and reduce costs; the third measure was to explore new business opportunities and discover the hidden demand for its trust products; the fourth measure was to enhance the Company's capability on wealth management services and expand coverage of institutional and individual customers with high net worth value.

Due to the success of the Company's flexible development strategies, the Company's trust business has achieved stable growth in 2017. The trust AUM of all the Company's trusts increased from RMB254,637 million as at 31 December 2016 to RMB263,408 million as at 31 December 2017, and the total number of trusts was 796 and 955 as at the respective dates. In 2017, the Company continued to improve active management capability and optimise trust business structure and revenue structure of the Company's trust business. As at 31 December 2017, the AUM of actively managed trust was RMB77,959 million, representing a year-on-year increase of RMB15,987 million and accounting for 29.6% of the total trust AUM (indicating a year-on-year growth of 5.3 percentage points). During the reporting period, revenue from the actively managed trust amounted to RMB784 million, representing a year-on-year increase of RMB329 million and accounting for 69.4% of the fee and commission income of the total income from trust business (indicating a year-on-year growth of 14.4 percentage points).

MANAGEMENT DISCUSSION AND ANALYSIS

Classification of trusts

With the flexible trust arrangements under PRC laws, the Company's trust license and strong active management capabilities, the Company have been continuously developing trust products with new and different structures and new investment channels, in order to capture market opportunities emerging at different times and satisfy the changing needs of its clients. The Company offers and manages a range of trusts to satisfy the financing, investment and wealth management needs of its various types of clients.

The Company's rights to manage and use trust assets come from the trustors' entrustment. While the rights granted to the Company by the trustors vary from one trust to another, the Company has based on the differences of the Company's roles and responsibilities regarding the management and use of trust assets, classified its trusts into administrative management trusts, and actively managed trusts. The actively managed trusts can be further subdivided into financing trusts, and investment trusts. Financing trusts focus on satisfying the financing needs of clients' counterparties of the Company, while the investment trusts focus on satisfying the investment needs of its trustor clients.

- (1) **Financing trusts:** Under this type of trusts, in addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of the trust assets, and focus on satisfying the financing needs of its clients' counterparties. The Company's financing trusts provide flexible financing solutions for real estate development projects, government infrastructure projects and other various types of enterprises.
- (2) **Investment trusts:** The Company is responsible for or participate in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of the trust assets, and focused on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of securities investment trusts, indirect investment trusts and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients. The Company's investment trusts also include family trusts that are established by individual families for wealth inheritance and tax planning purposes.
- (3) **Administrative management trusts:** In an administrative management trust, the trustors have the discretion on the use of the trust assets. They will be responsible for seeking counterparties to the transactions for the proposed trust, performing their own due diligence, selecting the assets or projects in which the trust assets will be invested, and in charge of project management after the establishment of the trust. The Company's roles in administrative management trusts are limited to providing trust administration services and accepting entrustment of trust assets from trustors to provide financing for projects or enterprises designated by the trustors.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Company's total numbers of trusts and AUM of each type of our trusts as at the dates indicated:

	As at 31 December			
	2017		2016	
	Number	AUM	Number	AUM
<i>(AUM: RMB in millions)</i>				
Financing trusts	146	48,314	87	34,063
Investment trusts	296	29,645	186	27,909
Administrative management trusts	513	185,449	523	192,665
Total	955	263,408	796	254,637

The following table sets forth the revenue generated from each type of the Company's trusts as at the periods indicated (in absolute amount and as percentage of the fee and commission income accounted for in the total income from trust business):

	Year ended 31 December			
	2017		2016	
	Revenue	%	Revenue	%
<i>(Revenue : RMB in millions)</i>				
Financing trusts	562	49.74	260	31.40
Investment trusts	222	19.64	195	23.60
Administrative management trusts	346	30.62	373	45.00
Total	1,130	100.00	828	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

Financing Trusts

Through financing trusts, the Company mainly provides private equity investment banking services to various types of enterprises and institutions in China, and offers flexible and diversified financing plans. Based on the industry segments, the financing trusts of the Company during the reporting period can be categorised as real estate trusts, governmental platform and infrastructure trust, and industrial and commercial enterprises trusts.

- (1) **Real Estate Trusts:** The Company's real estate trusts focus on arranging debt or equity financing for real estate development projects located in China which are undertaken by top Chinese real estate developers. During the reporting period, the Company continued to promote the shift of real estate trusts from debt financing to "equity rights + creditors' rights" and equity financing. By sending onsite managers and engaging third-party professional institutions to be in charge of management, the Company continued to enhance its active management capability and risk control for real estate projects and enhanced cooperation with counterparties.
- (2) **Governmental Platforms and Infrastructure Trusts:** The governmental platforms and infrastructure trusts mainly focus on arranging debt financing for infrastructure development projects located in the PRC that are undertaken by local authorities or companies that serve as financing platforms.
- (3) **Industrial and Commercial Enterprises Trusts:** The Company's industrial and commercial enterprises trusts focus on arranging various forms of financing for companies to satisfy their working capital needs in the general industrial and commercial sectors in the PRC. In 2017, the Company offered support to industrial and commercial sectors via industry investment funds, equity investments and quasi-asset backed securities, which diversified the instruments available for the industrial and commercial sectors.

As at 31 December 2016 and 31 December 2017, the Company managed 87 and 146 financing trusts, respectively, and the AUM increased by 41.8% from RMB34,063 million as at 31 December 2016 to RMB48,314 million as at 31 December 2017. Revenue from financing trusts for 2017 increased by 116.2% to RMB562 million as compared to 2016.

Investment Trusts

With investment trusts, the Company provides asset and wealth management services to institutional investors and HNWI's to satisfy their investment needs. Rapid accumulation of wealth in the PRC has resulted in diversified demands for various forms of investment. As the traditional asset management industry in the PRC is dominated by securities investment fund companies and securities firms, which mainly invest in standardised financial products in capital markets, such as the money market, publicly traded stocks and bonds, the Company believes the flexibility of the Company's trusts and the business scope of the Company's trust license enable the Company to offer financial products with unique value to institutional investors and HNWI's.

MANAGEMENT DISCUSSION AND ANALYSIS

Based on the subject distribution by investment, investment trusts can be further categorised into securities investment trusts, indirect investment trusts, family trusts, discretionary wealth management trusts and other types of investment trusts.

- (1) **Securities Investment Trusts:** The Company's securities investment trusts mainly invest in entrusted funds in combinations of publicly traded securities, including equity securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, closed-end and open-end securities investment funds, enterprise bonds, treasury notes and related derivative products. The Company offers three major types of securities investment trusts: (i) management securities investment trusts, (ii) structured securities investment trusts, and (iii) bond markets trusts.
- (2) **Indirect Investment Trusts:** The Company's indirect investment trusts do not directly invest in any particular class of assets (such as listed securities). Instead, such trusts subscribe to an asset management scheme initiated by a security firm or other financial institutions or limited partner interests in a limited partnership. The target asset management scheme or limited partnership then provide funding to counterparties in the form of the equity investment.
- (3) **Family Trusts:** The Company can assist individual clients to achieve goals on wealth succession through the Company's family trusts. The Company's clients may entrust funds as well as other types of properties, such as real properties, securities, beneficial interests of insurance policies and precious metals, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. In 2015, the Company established a specialised business department dedicated to family trust business which provides standardised and quality family trusts services. As people in the PRC are becoming wealthier and the rapid expansion of group of UHNWIs, family trusts became widely recognised by UHNWIs due to advantage of family trusts in wealth succession, family affairs management and tax planning. During the reporting period, the family trust business experienced rapid growth. As at 31 December 2017, the Company's family trust business have signed in aggregate a contract amount of RMB4.6 billion, of which the trust assets that have actually been delivered amounted to RMB2.89 billion, representing a year-on-year increase of 270%, thus securing a leading position in the industry. The Company launched the first family charitable trust in the PRC in 2017. The Company's "Wealth Succession Family Trust" (財富傳承系列家族信託) was recognised as the "Best Family Trust Scheme 2017" (二零一七年度優秀家族信託計劃) by Securities Times (證券時報). The Company was the only trust company which won the award for family trust. The Company also launched the family trust specialised system in 2017 and became one of trust companies which became the leader in developing family trust specialised systems in China. The implementation of the system signified the Company's family trust business has developed into one which is proper, systematic and standardised.
- (4) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing private wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen for them by the Company based on their respective investment needs. The trust agreements normally set forth the general scope of investment as set by the trustors, and the Company is granted with full discretion on allocation of the trust assets. During the reporting period, the Company continued to exert effort on developing

MANAGEMENT DISCUSSION AND ANALYSIS

customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 31 December 2017, the Company managed 12 discretionary wealth management trusts, with the AUM reaching approximately RMB2.75 billion.

- (5) **Other Trusts:** In addition to the above investment trusts, the Company also established alternative investment trusts and charitable trusts. Alternative investment trusts mainly invest in alternative assets such as diamonds and artworks, while charitable trusts are manifestations of the Company's active performance for its corporate social responsibility. In 2017, the Company's charitable trusts attempted to test the waters in order to enhance the branding of the Company as its business development model and to integrate the business development model with the Company's family trust business. As at 31 December 2017, the Company managed two charitable trusts, with the AUM reaching RMB10.2 million.

As at 31 December 2016 and 31 December 2017, the Company had 186 and 296 investment trusts, respectively, with AUM increasing by 6.2% from RMB27,909 million as at 31 December 2016 to RMB29,645 million as at 31 December 2017. Revenue from investment trusts for 2017 amounted to RMB222 million, representing a slight increase of 13.8% as compared to 2016.

Administrative Management Trusts

Through the administrative management trusts, the Company provides administrative services to the trustors, whilst at the same time aiming at satisfying the investment needs of trustor clients on the one hand and the financing needs of the clients' counterparties on the other hand. The Company established administrative management trusts pursuant to the instructions of trustors and provided financing and investments for real estate development projects, infrastructure projects, and various industrial and commercial enterprises chosen by those trustors. For this type of trusts, the Company merely provides trust administration-related services and accepts entrustment of trust assets from trustors and uses such trust assets to provide financing for or make investments in the projects or enterprises designated by the trustors.

In 2017, as the Company actively enhanced the active management capabilities, expanded the scope of actively managed trusts, and continuously shifted the focus to actively managed trust business which command a higher rate of trustee's remuneration, the AUM of the Company's administrative management trust and its income from such trusts generally decreased. As at 31 December 2016 and 31 December 2017, the Company had 523 and 513 administrative management trusts in existence, respectively, with trust AUM decreasing by 3.7% from RMB192,665 million as at 31 December 2016 to RMB185,449 million as at 31 December 2017. In 2017, the income of the Company from administrative management trusts was RMB346 million, representing a decrease of 7.2% as compared to 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Proprietary Business

In 2017, in order to effectively utilise its own funds and improve the operation quality and efficiency of its own funds, the Company insisted on the asset utilisation strategy of combining long term, mid term and short term assets, and proactively made investments with its own funds. First, it intensified the investing strength in the capital market and actively engaged in investments in the secondary market. Second, by making equity investment in Fullgoal Fund Management Co. Ltd.* (富國基金管理有限公司), Minsheng Securities Co., Ltd. (民生證券股份有限公司), Taishan Property & Casualty Insurance Co., Ltd.* (泰山財產保險股份有限公司), Dezhou Bank Co., Ltd.* (德州銀行股份有限公司), Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司), the Company's strategic layout in the entire financial industry has been enhanced. Third, the synergy effect was effectively utilised which actively supported the effective expansion of trust business. Fourth, with liquidity being assured, short term operations such as inter-bank borrowings and the purchase of wealth management products were actively carried out in order to raise capital efficiency. Through its incessant efforts, the Company recorded its proprietary business income of RMB681.4 million in 2017, representing a year-on-year increase of 10.3%. In addition, as the H shares of the Company were successfully listed on the Hong Kong Stock Exchange in December 2017, this replenished the Company's capital and increased the Company's net capital, and the liquidity of the assets under the Company's proprietary business also improved substantially.

Allocation of Proprietary Assets

Pursuant to the Administrative Measures on Trust Companies (《信託公司管理辦法》) issued by CBRC in January 2007, trust companies may engage in the following proprietary businesses: (i) deposits at banks and other financial institutions, (ii) loans, (iii) leasing, and (iv) investments, which include equity investments in financial institutions, investments in financial products and investments in fixed assets for self-use.

In conducting the Company's proprietary business, the Company allocates the Company's proprietary assets into different asset classes and invests in businesses with strategic value for the Company's trust business in order to maintain and increase the value of the Company's proprietary assets. The Company manages and invests its proprietary assets according to the Company's annual assets allocation plans, which are formulated by the management of the Company and approved by the Board. The Company makes strategic long-term investments in a number of financial institutions, which helps to establish stronger business relationships with these financial institutions and create synergies for the Company's respective operations. The Company also invests the Company's proprietary assets in various types of equity products, such as listed shares and mutual funds, as well as wealth management products. The Company keeps a reasonable amount of its proprietary assets in highly liquid form, such as deposits at banks and other financial institutions and government bonds in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of its trust business.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the allocation of our proprietary assets managed by the Company as our proprietary business as at the dates indicated:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Investments in monetary assets	2,014,511	460,948
Deposits at banks	1,063,111	162,048
Government bonds purchased under agreements to resell	951,400	298,900
Securities Investments	5,022,948	4,350,215
<i>Investment in equity products</i>	414,208	379,021
Listed shares classified as:		
– financial assets at FVTPL	18,199	25,673
– available-for-sale financial assets	5,431	42,408
Subtotal	23,630	68,081
Mutual funds classified as:		
– financial assets at FVTPL	81,246	48,311
– available-for-sale financial assets	276,832	262,629
Subtotal	358,078	310,940
Equity investment in an unlisted entity classified as financial assets at FVTPL	32,500	–
<i>Investment in wealth management products</i>		
Investments in our consolidated trust schemes	4,167,021	3,634,905
Investments in our unconsolidated trust schemes and classified as loans and receivables	243,990	180,643
Investment in unconsolidated trust schemes classified as financial assets at FVTPL	30,000	–
Asset management products	167,729	155,646
Long-Term Equity Investments	1,238,322	1,193,320
Investment accounted for using the equity method	1,125,161	845,602
Investments classified as available-for-sale financial assets	113,161	347,718
Proprietary Loans	519,400	–
Trust Industry Protection Fund	68,626	57,800
Total	8,863,807	6,062,283

MANAGEMENT DISCUSSION AND ANALYSIS

Monetary Assets

This is the safest and most liquid type of proprietary investment of the Company. The balance of the Company's investment in monetary assets and the Company's investment return (in terms of interest income generated) at the indicated periods are summarised below:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Investment in monetary assets		
– Deposit at banks	1,063,111	162,048
– Government bonds purchased under agreements to resell	951,400	298,900
Total	2,014,511	460,948

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Interest income generated from:		
– Deposit at banks	2,003	4,735
– Government bonds purchased under agreements to resell	18,374	14,602
Total	20,377	19,337

Average investment return of the Company's monetary assets (calculated as the total of investment income (in terms of interest income received), annualised as a percentage of average investment balance in such monetary assets, where appropriate) was 3.2% and 1.6% for the years ended 31 December 2016 and 31 December 2017, respectively. The decrease in average investment return was due to a large amount of cash raised from the global offering of the Company in December 2017 being deposited into the bank account of the Company, while no significant interest income was generated in the short term.

MANAGEMENT DISCUSSION AND ANALYSIS

Securities Investments

Under the annual assets allocation plan of the Company, a certain percentage of the Company's proprietary assets would be allocated to securities investments including listed shares and mutual funds, as well as wealth management products, including investments in the Company's consolidated and unconsolidated trust schemes and asset management products.

The following table sets forth the risk category of the underlying investments and average investment balance of the Company's securities investments for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in millions, except risk category)</i>	
Risk category of underlying investments		
– Equity products	High	High
– Trust schemes	Medium	Medium
– Asset management products	Medium	Medium
Average investment balance⁽¹⁾		
– Equity products	396.6	691.8
– Trust schemes	4,128.3	2,856.3
– Asset management products	161.7	81.5

Notes :

(1) Average of the beginning balance and the ending balance of each category of investments held by the Company for the year/period indicated, before consolidation of the consolidated structured entities.

During the reporting period, due to fluctuations in the stock market in the PRC, the Company contemporaneously adjusted the allocation of its proprietary assets in securities investment by decreasing the allocation of its proprietary assets to equity products and increasing the allocation of its proprietary assets to trust schemes and asset management products. During the reporting period, the average balance of the Company's investments in equity products decreased by 42.7% from RMB691.8 million in 2016 to RMB396.6 million in 2017; the average balance of investments in trust schemes increased by 44.5% from RMB2,856.3 million in 2016 to RMB4,128.3 million in 2017; and the average balance of the Company's investments in asset management products increased by 98.4% from RMB81.5 million in 2016 to RMB161.7 million in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Long-Term Equity Investments

The Company has made strategic long-term investments in a number of financial institutions, which helped the Company to establish stronger business relationships with these financial institutions and created synergies for its business operations. The following table sets forth the major equity investments of the Company in financial institutions as at 31 December 2017, including their main businesses, the Company's proportionate equity interests in them, whether the Company held any board seat, the date of the Company's first investment, and the relevant accounting treatment of each of the investments.

Name	Main business	Equity interest as at 31 December 2017	Board seat	First investment date	Accounting treatment
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method
Shandong HOWO Automotive Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	Automobile financing	30.00%	Yes	September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd.* (泰山財產保險股份有限公司)	Insurance products and services	9.85%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd.* (德州銀行股份有限公司)	Commercial banking	3.42%	Yes	November 2009	Investments accounted for using the equity method
Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	Securities brokerage, securities asset management and proprietary trading	1.38%	No	January 1999	Available-for-sale financial assets

MANAGEMENT DISCUSSION AND ANALYSIS

The Company uses the equity method to account for its long-term equity interests in companies that constituted associates of the Company under IFRSs, and account, for the Company's long-term equity investments in other companies as available-for-sale financial assets. The balance of the Company's long-term equity investments (including those accounted for as associates using the equity method and those accounted for as available-for-sale financial assets) together with their investment return, (in terms of dividend income generated) for the periods indicated below are summarised as follows:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Long-term equity investments, accounted for:		
– As associate using the equity method	1,125,161	845,602
– As available-for-sale financial assets	113,161	347,718
Total	1,238,322	1,193,320

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Dividend income generated from:		
– Associates accounted for by the equity method		
– Fullgoal Fund Management Co. Ltd.	55,028	129,065
– Other non-material associates	718	1,279
Subtotal	55,746	130,344
– Available-for-sale financial assets	332	28,902
Total	56,078	159,246

Average investment returns of the Company's long-term equity investments (calculated as the total of investment income (in terms of dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) was 12.6% and 4.6% for the years ended 31 December 2016 and 31 December 2017, respectively. The decrease in average return on long-term equity investments in 2017 as compared to 2016 was primarily due to the decrease in dividend income from the associates of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Proprietary Loans

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. The Company did not grant any proprietary loans to its customers in 2016, but it granted a limited number of proprietary loans in 2017. As at 31 December 2016, the Company did not have any outstanding balance of proprietary loans. As at 31 December 2017, the outstanding balance of the Company's proprietary loans was RMB519.4 million.

Trust Industry Protection Fund

According to the Administrative Measures on Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, trust companies are required to subscribe for a certain amount of the protection fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 18.7% from RMB57.8 million as at 31 December 2016 to RMB68.6 million as at 31 December 2017.

FINANCIAL OVERVIEW

Consolidated Income Statements Analysis

In 2017, net profit attributable to shareholders of the Company amounted to RMB894.8 million, which increased by RMB61.8 million as compared to last year, representing an increase of 7.4%.

Results of Operations

The following table summarises the Group's results of operations for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Fee and commission income	1,129,771	827,540
Interest income	490,698	455,226
Net changes in fair value on financial assets at fair value through profit or loss	1,793	(81,046)
Investment income	21,148	84,080
Other operating income	4,487	41,581
Total operating income	1,647,897	1,327,381

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Interest expenses	(167,731)	(88,097)
Staff costs (including Directors and Supervisors' emoluments)	(175,737)	(161,751)
Operating lease payments	(9,336)	(10,793)
Depreciation and amortisation	(9,115)	(5,684)
Change in net assets attributable to other holders of consolidated structured entities	1,831	1,316
Tax and surcharges	(14,559)	(24,642)
Auditor's remuneration	(2,358)	(1,100)
Other operating expenses	(90,695)	(57,232)
Impairment losses on financial assets	(228,458)	(40,518)
Total operating expenses	(696,158)	(388,501)
Share of profit of investments accounted for using the equity method	167,675	138,248
Operating profit before income tax	1,119,414	1,077,128
Income tax expense	(224,609)	(244,099)
Net profit attributable to shareholders of the Company	894,805	833,029

Total Operating Income

Fee and Commission Income

The following table summarises the breakdown of the Group's fee and commission income for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Fee and commission income:		
Trustee's remuneration	1,125,510	825,053
Others	4,261	2,487
Total	1,129,771	827,540

The Group's fee and commission income in 2017 was RMB1,129.8 million, representing an increase of 36.5% as compared to the fee and commission income of RMB827.5 million in 2016. Such increase was primarily due to an increase in the Group's trustee's remuneration, which was caused by an increase in AUM of the Company's actively managed trusts.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Income

The following table summarises the breakdown of the Group's interest income for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Interest income from:		
Cash and bank balance	2,003	4,735
Loans to customers	448,124	413,971
Investments classified as loans and receivables	16,024	16,809
Financial assets purchased under agreements to resell	18,374	14,602
Trust Industry Protection Fund	6,173	5,109
Total	490,698	455,226
Including: Interest income from impaired financial assets	37,433	94,511

The Group's interest income in 2017 was RMB490.7 million, representing an increase of 7.8% as compared to the interest income of RMB455.2 million in 2016. Such increase was primarily due to the following factors:

- (1) the Group's interest income from loans to customers increased by 8.3% from RMB414.0 million in 2016 to RMB448.1 million in 2017 primarily due to an increase in average balance of loans granted by the Group's consolidated trust schemes from 2016 to 2017 as a result of increase in the aggregate size of such consolidated trust schemes.
- (2) the Group's interest income from cash and bank balance decreased by 57.7% from RMB4.7 million in 2016 to RMB2.0 million in 2017 primarily because the Group combined more cash and bank balance (including net proceeds raised from the listing of the Company) with its existing proprietary assets and allocated them into different asset classes.
- (3) the Company's interest income from financial assets purchased under agreements to resell increased by 25.8% from RMB14.6 million in 2016 to RMB18.4 million in 2017 primarily due to the increase in average interest rate the Company received for such financial assets.

Net Changes in Fair Value on Financial Assets at FVTPL

Net changes in fair value on financial assets at FVTPL turned from a loss of RMB81.0 million in 2016 to a gain of RMB1.8 million in 2017 primarily due to a decrease of the Shanghai Stock Exchange Index for 2016 to 3,103.64 points on 31 December 2016 from 3,539.18 points on 31 December 2015. The Shanghai Stock Exchange Index for 2017 increased to 3,307.17 points on 31 December 2017 from 3,103.64 points on 31 December 2016. The overall capital market condition generated floating gain for products such as stocks and funds that were held by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment Income

The following table summarises the breakdown of the Group's investment income for the periods indicated:

	Year ended 31 December	
	2017	2016
<i>(RMB in thousands)</i>		
Dividends income from:		
Available-for-sale equity investments	332	28,902
Net realised gains/(losses) from:		
Financial assets at FVTPL	5,933	19,736
Available-for-sale financial assets	14,883	37,814
Disposal of investment accounted for using the equity method	–	(2,372)
Total	21,148	84,080

The Group's investment income in 2017 was RMB21.1 million, decreased by 74.8% as compared to RMB84.1 million in 2016. In 2016, the Company received special dividend from Minsheng Securities Co., Ltd. In 2017, the Company did not receive special dividend as that was received by the Company in 2016. Therefore, income from available-for-sale equity interests decreased and investment income decreased accordingly. In addition, the Group realised substantially less gain from financial assets at FVTPL and from available-for-sale financial assets as it traded smaller amount of such financial assets in 2017 as compared to the same period in 2016.

Total Operating Expenses

Interest Expenses

The Group's interest expenses represented (i) interest paid to China Trust Protection Fund Co., Ltd.* (中國信託業保障基金有限責任公司), (ii) interest accrued on inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries).

The Group's interest expenses in 2017 was RMB167.7 million, increased by 90.4% as compared to RMB88.1 million in 2016, primarily due to the increase in interests paid to China Trust Protection Fund Co., Ltd., and the increase in expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries). The increase in expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries) was primarily due to an increase in average balance of loans granted by the Group's consolidated trust schemes from 2016 to 2017, and the decline in the proportion of proprietary funds in such loans granted by the Group's consolidated trust schemes.

MANAGEMENT DISCUSSION AND ANALYSIS

Staff Costs

The following table summarises the breakdown of the Group's staff costs for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Salaries and bonuses	148,771	137,278
Pension costs (defined contribution plans)	9,047	8,081
Housing funds	4,063	3,684
Labour union fee and staff education expenses	2,651	2,590
Other social security and benefit costs	11,205	10,118
Total	175,737	161,751

The Company's staff costs in 2017 was RMB175.7 million, increased by 8.6% as compared to RMB161.8 million in 2016 primarily due to the increases in salaries and bonuses, pension costs, housing funds, labour union fee and staff education expenses, and other social security and benefit costs. The increase in salaries and bonuses was caused by the increase in bonuses for the Company's employees as a result of increase in the Company's operating income, and the increase in the number of employees. The pension costs, the housing funds and labour union fee and staff education expenses were adjusted in accordance with the increase in salaries and bonuses.

Tax and Surcharges

The Company's tax and surcharges decreased by 40.9% from RMB24.6 million in 2016 to RMB14.6 million in 2017, primarily due to the replacement of business tax by value added tax in the Company's operating income starting from 1 May 2016.

Other Operating Expenses

The Group's other operating expenses increased by 58.5% from RMB57.2 million in 2016 to RMB90.7 million in 2017 primarily because of the exchange loss incurred when the Company remitted part of the net proceeds of the listing back to the mainland and the adjustments to the carrying amounts of assets denominated in foreign currencies as at the end of the period, and the carry-over of listing expenses after its listing in December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment Losses on Financial Assets

The following table summarises the breakdown of the Group's impairment losses on financial assets for the periods indicated:

	Year ended 31 December	
	2017	2016
	(RMB in thousands)	
Net charge of impairment allowance on loans to customers		
– Collectively assessed	48,010	14,380
– Individually assessed	139,293	24,087
Net amount of impairment allowance on investments classified as loans and receivables		
– Collectively assessed	1,215	2,051
– Individually assessed	11,404	–
Impairment losses on available-for-sale equity instrument	28,536	–
Total	228,458	40,518

The Group's impairment losses on financial assets increased by 463.8% from RMB40.5 million in 2016 to RMB228.5 million in 2017 primarily due to a significant increase in impairment loss provision made for loans to customers and an increase in impairment losses on available-for-sale equity instruments. A substantially larger amount of collectively assessed impairment allowance was made due to increase in loans to customers that are granted by the consolidated trust scheme and individually assessed impairment allowance was made for impaired loans granted by single consolidated trust scheme as at 31 December 2017. The increase in impairment losses on available-for-sale equity instrument is primarily due to the impact of the capital market on a fund product held by the Company, resulting in a significant drop in its market value, and the impairment allowance made for the Company's equity investment in a listed company.

Share of Profit of Investments Accounted for Using the Equity Method

The Group's share of profit of investments accounted for using equity method increased by 21.3% from RMB138.2 million in 2016 to RMB167.7 million in 2017 primarily due to the increase in the share of profit of the Group's investment in Shandong HOWO Auto Finance Co., Ltd. and Shandong Provincial Financial Asset Management Co., Ltd.* (山東省金融資產管理股份有限公司) in 2017. The increase was partially offset by the decrease in share of profit the Group recorded in the investment in Fullgoal Fund Management Co., Ltd. and First-Trust Fund Management Co., Ltd..

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Profit before Income Tax and Operating Margin

The following table sets forth our operating profit before income tax and operating margin for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Operating profit before income tax	1,119,414	1,077,128
Operating margin ⁽¹⁾	67.9%	81.1%

Note:

(1) Operating margin = Operating profit before income tax/total operating income.

As a result of the foregoing, the Group's operating profit before income tax increased by 3.9% from RMB1,077.1 million in 2016 to RMB1,119.4 million in 2017, and the Group's operating margin decreased from 81.1% in 2016 to 67.9% in 2017.

Income Tax Expense

The Company's income tax expense decreased by 8.0% from RMB244.1 million in 2016 to RMB224.6 million in 2017 primarily due to an increase in non-taxable income in 2017.

Net Profit Attributable to Shareholders of the Company and Net Profit Margin

The following table sets forth the net profit attributable to shareholders of the Company and the Company's net profit margin for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Net profit attributable to shareholders of the Company	894,805	833,029
Net profit margin ⁽¹⁾	54.3%	62.8%

Note:

(1) Net profit margin = Net profit attributable to shareholders of the Company/total operating income.

As a result of the foregoing, net profit attributable to shareholders of the Company increased by 7.4% from RMB833.0 million in 2016 to RMB894.8 million in 2017. The Company's net profit margin decreased from 62.8% in 2016 to 54.3% in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Results of Operations

From the business perspective, the Company conducts its business through two main business segments: trust business and proprietary business.

The following table sets forth the Group's segment income and its main components for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Trust business:		
Operating income	1,134,147	847,996
Segment income	1,134,147	847,996
Proprietary business:		
Operating income	513,750	479,385
Share of profit of investments accounted for using the equity method	167,675	138,248
Segment income	681,425	617,633

The following table sets forth the Group's segment operating expenses for the periods indicated:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Trust business	(294,247)	(244,174)
Proprietary business	(401,911)	(144,327)
Total operating expenses	(696,158)	(388,501)

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's segment operating profit before income tax for the periods indicated, which is calculated as segment income minus segment operating expenses:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Trust business	839,900	603,822
Proprietary business	279,514	473,306
Total operating profit before income tax	1,119,414	1,077,128

The following table sets forth the Group's segment operating margin for the periods indicated, which is calculated as segment operating profit before income tax divided by the segment income:

	Year ended 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Trust business	74.1%	71.2%
Proprietary business	41.0%	76.6%

Trust Business

Segment income from the Group's trust business consists of its fee and commission income, interest income from cash and bank balance, interest income from contribution to the Trust Industry Protection Fund and other operating income that are related to the Group's trust business. Segment operating expenses of the Group's trust business consists of staff costs, operating lease payments, depreciation and amortisation, tax and surcharges, auditor's remuneration and other operating expenses that are related to the Group's trust business.

Segment operating profit before income tax for the Group's trust business increased by 39.1% from RMB603.8 million in 2016 to RMB839.9 million in 2017 primarily due to a 33.7% increase in segment income from trust business from RMB848.0 million in 2016 to RMB1,134.1 million in 2017, which was partially offset by a 20.5% increase in segment operating expenses from trust business from RMB244.2 million in 2016 to RMB294.2 million in 2017.

- (1) The increase in segment income from trust business was mainly due to an increase in the Group's fee and commission income from RMB827.5 million in 2016 to RMB1,129.8 million in 2017.
- (2) The increase in segment operating expenses from trust business was mainly due to an increase in staff costs from RMB157.8 million in 2016 to RMB172.0 million in 2017. Other operating expenses increased from RMB56.9 million in 2016 to RMB88.8 million in 2017.

As a result of the foregoing, the segment margin of trust business increased from 71.2% in 2016 to 74.1% in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Proprietary Business

Segment income from the Group's proprietary business consists of interest income from loans to customers, interest income from investments classified as loans and receivables and financial assets purchased under agreements to resell, net changes in fair value on financial assets at FVTPL, investment income and share of profit of investments accounted for using the equity method. Segment operating expenses of the Group's proprietary business consists of trust benefits that the Group's consolidated financing trust schemes expect to distribute to third-party beneficiaries, staff costs, depreciation and amortisation, changes in net assets attributable to third party beneficiaries of the Group's consolidated investment trust schemes, tax and surcharges and impairment losses on financial assets.

Segment operating profit before income tax for the Group's proprietary business decreased by 40.9% from RMB473.3 million in 2016 to RMB279.5 million in 2017 primarily due to a 178.5% increase in segment operating expenses from proprietary business from RMB144.3 million in 2016 to RMB401.9 million in 2017, which was partially offset by a 10.3% increase in segment income from proprietary business from RMB617.6 million in 2016 to RMB681.4 million in 2017.

- (1) The increase in segment operating expenses from proprietary business was mainly due to (i) an increase in interest expenses from RMB88.1 million in 2016 to RMB167.7 million in 2017; and (ii) an increase in impairment losses on financial assets from RMB40.5 million in 2016 to RMB228.5 million in 2017.
- (2) The increase in segment income from proprietary business was mainly due to (i) an increase in interest income from RMB445.4 million in 2016 to RMB490.1 million in 2017 and (ii) that net changes in fair value on financial assets at FVTPL was a loss of RMB81.0 million in 2016 and was a gain of RMB1.8 million in 2017. Interest income and net changes in fair value on financial assets at FVTPL were partly offset by a decrease in investment income from RMB84.1 million to RMB21.1 million and a decrease in other operating income from RMB31.0 million to RMB0.7 million.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 76.6% in 2016 to 41.0% in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Selected Consolidated Financial Positions

The Company's consolidated statements of financial positions include the proprietary assets and liabilities of the Company as well as the assets and liabilities of the Company's consolidated trust schemes. Net assets attributable to third-party beneficiaries of the Company's consolidated trust schemes are accounted for as liabilities in the Company's consolidated statements of financial positions.

Assets

As at 31 December 2016 and 31 December 2017, total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB8,648.0 million and RMB12,902.0 million, respectively, among which total assets of the Company amounted to RMB7,102.3 million and RMB10,117.7 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments accounted for using the equity method, (iii) available-for-sale financial assets, (iv) financial assets at FVTPL, (v) cash and bank balances, (vi) trustee's remuneration receivable, (vii) financial assets purchased under agreement to resell, and (viii) investments classified as loans and receivables. As at 31 December 2017, the above-mentioned major assets accounted for 47.9%, 14.7%, 4.9%, 3.8%, 9.1%, 2.4%, 7.4% and 1.9% of the Group's total assets, respectively.

Loans to Customers

The following table sets forth the gross amount of the Group's loans to customers, the amount of allowance for impairment losses broken down by collective assessment and individual assessment, net amount of the Group's loans to customers, as well as classification of the Group's loans to customers into non-current and current assets as at the dates indicated:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Loans to customers, gross	6,581,191	4,259,691
Less: allowance for impairment losses		
– Collectively assessed	(114,726)	(66,716)
– Individually assessed	(284,033)	(144,740)
Loans to customers, net	6,182,432	4,048,235
Analysed into:		
– Non-current assets	3,196,960	3,133,438
– Current assets	2,985,472	914,797

MANAGEMENT DISCUSSION AND ANALYSIS

The substantial majority of the Group's loans to customers were granted by the Company's consolidated trust schemes. The gross amount of the Group's loans to customers increased continuously during the reporting period primarily because more financing trust scheme were consolidated by the Company in accordance with IFRS 10 in 2017 than those in 2016.

All of the Group's loans to customers were granted to corporate customers during the reporting period.

Some of the loans granted by the Company's trust schemes to which it provided liquidity support or made proprietary investment and consolidated into the Company's financial statements were identified as impaired during the reporting period. The aggregate gross amount of such impaired loans increased by 208.5% from RMB273.9 million as at 31 December 2016 to RMB844.9 million as at 31 December 2017. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2016 and 31 December 2017 was RMB133.9 million and RMB1,334.4 million, respectively. The Company performed individual assessments to determine the provision for impairment losses on those loans and made allowance for impairment of RMB144.7 million and RMB284.0 million for these impaired loans as at 31 December 2016 and 31 December 2017, respectively, representing 52.8% and 33.6% of the gross amount of those loans, respectively. The Company believes adequate impairment allowances have been provided for those impaired loans, as such impairment allowances were provided in accordance with the provisions under IAS 39 "Financial Instruments: Recognition and Measurement". Such impairment allowances were measured by the difference between carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, in particular, disposal proceeds after deduction of expenses attributable to such disposals as at each of the balance sheet dates, respectively. The gross amount of such impaired loans represented 6.4% and 12.8% of the Group's gross loans to customers as at 31 December 2016 and 31 December 2017, respectively.

While the Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans, the Company does not regularly conduct such business. The Company did not grant loans to customers using its proprietary assets in 2016, but it granted a limited number of proprietary loans in 2017. As at 31 December 2017, gross amount of proprietary loans and net amount of proprietary loans of the Company accounted for 8.1% and 8.4% of the gross amount of the Company's loans to customers and the net amount of the Company's loans to customers, respectively.

The following table sets forth the gross amount of the Company's proprietary loans, the amount of allowance for impairment losses on such loans broken down by collective assessment and individual assessment, net amount of such loans, as well as classification of such loans into non-current and current assets as at the dates indicated:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Loans to customers, gross	530,000	–
Less: allowance for impairment losses		
– Collectively assessed	10,600	–
– Individually assessed	–	–
Loans to customers, net	519,400	–
Analysed into:		
– Non-current assets	372,400	–
– Current assets	147,000	–

MANAGEMENT DISCUSSION AND ANALYSIS

As the vast majority of the Company's proprietary loans were granted to counterparty clients of the Company's financing trusts as bridge financing before proceeds of the loans from the Company's trusts were released to them, changes in the amount of such loans during the reporting period mainly reflected the Company's agreements with different counterparty clients at different times.

None of the Company's proprietary loans was identified as impaired during the reporting period. As such, no allowance for impairment losses was made as a result of any individual assessment of the Company's proprietary loans.

Investments Accounted for Using the Equity Method

The Company has made equity investments in various companies in the financial industry in the PRC. When the Company has significant influence but no control over a target company, the Company treats such investee company as an associate and the Company accounts for its investments in associates using the equity method of accounting. The following table sets forth the associates of the Company and associates of the Company's certain consolidated structured entities and the book value of the Company's investments in them as at the dates indicated:

	Equity Interest as at 31 December 2017	As at 31 December 2017	2016
<i>(RMB in thousands)</i>			
Associates of the Company:			
Fullgoal Fund Management Co., Ltd.	16.68%	473,176	409,979
Dezhou Bank Co., Ltd.	3.42%	139,152	142,414
First-Trust Fund Management Co., Ltd.	45.00%	105,642	115,336
Shandong HOWO Auto Finance Co., Ltd.	30.00%	169,887	152,004
Zouping SPD Rural Bank Co., Ltd.	10.00%	26,157	25,869
Taishan Property & Casualty Insurance Co., Ltd.	9.85%	211,147	–
Gross amount		1,125,161	845,602
Impairment allowance		–	–
Associates of the Company, net		1,125,161	845,602
Associates of the Company's certain consolidated structured entities:			
Shandong Provincial Financial Asset Management Co., Ltd.	4.95%	618,730	575,500
Tailong Health Industry Investment Company Limited	40.00%	80,000	80,000
Others		78,143	65,000
Gross amount		776,873	720,500
Less: Impairment allowance		–	–
Associates of the Company's certain consolidated structured entities, net		776,873	720,500
Total		1,902,034	1,566,102

MANAGEMENT DISCUSSION AND ANALYSIS

Changes in the book value of the Company's investments in these associates mainly reflect changes in their net assets as a result of profit or loss and other comprehensive income or loss they generated during the relevant period as well as any profit distribution. In the second half of 2017, the Company appointed one director to sit on the board of directors of Taishan Property & Casualty Insurance Co., Ltd., which resulted in the Company having significant influence over operational decisions of Taishan Property & Casualty Insurance Co., Ltd. As such, Taishan Property & Casualty Insurance Co., Ltd. was included as an associate of the Company, and was re-classified in the investments accounted for using the equity method.

Depending on the Company's business needs, the business operation and financial performance of the relevant associates as well as market conditions, the Company may decide to dispose its equity interests in some of its associates from time to time. During the reporting period, the Company planned to dispose and had taken certain measures for the disposal of all of its equity interests in First-Trust Fund Management Co., Ltd., Dezhou Bank Co., Ltd. and Zouping SPD Rural Bank Co., Ltd.. As at the date of this annual report, the Company is still looking for an appropriate buyer of such equity interests and do not expect such disposals, if completed, will have a material adverse effect on the Company's financial condition or results of operations.

Available-for-Sale Financial Assets

The following table sets forth the components and amount of the Group's available-for-sale financial assets as at the dates indicated:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Listed shares (at fair value)	5,431	42,408
Unlisted (at fair value)		
– Equity investments in non-listed companies	113,161	347,718
– Securities investment funds	276,832	262,629
– Asset management products	167,729	155,646
– Trust Industry Protection Fund	68,626	57,800
– Others	4,442	–
Total	636,221	866,201

The Group's available-for-sale financial assets include listed shares and various types of unlisted financial assets, including (i) the Group's equity investments in unlisted companies, (ii) investments in mutual funds, (iii) investments in certain asset management products, (iv) the Group's subscription to the mandatory Trust Industry Protection Fund, and (v) others.

All of the available-for-sale financial assets as at 31 December 2016 were proprietary assets of the Company. As at 31 December 2017, available-for-sale financial assets include the Group's proprietary assets and investments of the Group's consolidated trust schemes.

MANAGEMENT DISCUSSION AND ANALYSIS

The changes in the major composition of the available-for-sale financial assets were primarily due to the flexible adjustment of portfolio based on the market conditions by the Company in order to increase investment returns. The Group's available-for-sale financial assets decreased 26.6% from RMB866.2 million as at 31 December 2016 to RMB636.2 million as at 31 December 2017 primarily due to the decrease in equity investments in unlisted companies. In the second half of 2017, the Company appointed one director to sit on the Board of Taishan Property & Casualty Insurance Co., Ltd., who resulted in the Company having significant influence over financial and operational decisions of Taishan Property & Casualty Insurance Co., Ltd. As such, Taishan Property & Casualty Insurance Co., Ltd. was re-classified in the investments accounted for using the equity method.

In accordance with IFRSs, the Group assesses at the end of each reporting period whether there is objective evidence that any of the Group's available-for-sale financial assets is impaired. As at 31 December 2016 and 31 December 2017, the Group made allowance for impairment losses in the amount of RMB11.5 million and RMB28.5 million, respectively, on its available-for-sale financial assets.

Financial Assets at FVTPL

The following table sets forth the components and amount of the Group's financial assets at FVTPL as at the dates indicated:

	As at 31 December	
	2017	2016
	<i>(RMB in thousands)</i>	
Financial assets held for trading		
Equity investments		
Listed shares	18,199	25,673
Securities investment funds	81,246	48,311
Subtotal	99,445	73,984
Financial assets designated at fair value through profit or loss		
Equity investments held by consolidated structured entities	323,280	231,491
Investment in trust schemes which invested in equity	30,000	–
Equity investment in an unlisted entity	32,500	–
Total	485,225	305,475

The Group's financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL. All of the Group's financial assets held for trading were held by the Group as the Group's proprietary assets during the reporting period and included listed shares and securities investment funds. All of the Group's financial assets designated at FVTPL were equity investments held by some of the Group's consolidated trust schemes, trust schemes investing in equity interests and equity investment in an unlisted entity during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

The changes in the major composition of the Group's financial assets at FVTPL were due to the flexible adjustment of portfolio based on the market conditions by the Company in order to increase investment returns. Financial assets at FVTPL increased by 58.8% from RMB305.5 million as at 31 December 2016 to RMB485.2 million as at 31 December 2017, primarily due to the increase in the Group's investment in mutual funds, and the increase in the Group's equity investments held by consolidated trust schemes, trust schemes investing in equity interests and investment in an unlisted entity, which was partially offset by the price volatility of its stock investments in listed shares due to fluctuations of Chinese stock markets.

Cash and Bank Balances

As at 31 December 2016 and 31 December 2017, the Group's cash and bank balances amounted to RMB274.5 million and RMB1,172.8 million, respectively, among which RMB162.1 million and RMB1,063.2 million, respectively, were proprietary assets of the Company, the remaining was cash and bank balances of the Group's consolidated trust schemes. The Group's cash and cash bank balances as at 31 December 2017 increased because of the effect of the proceeds raised in the global offering of H shares of the Company.

Trustee's Remuneration Receivable

The Group's trustee's remuneration receivable represents trustee's remuneration that has accrued to the Company as the trustee but has not yet been paid from the trust accounts of its unconsolidated trust schemes to the Company's proprietary accounts.

The Group's trustee's remuneration receivable increased by 55.1% from RMB203.1 million as at 31 December 2016 to RMB315.0 million as at 31 December 2017. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company will normally be allowed to receive trustee remuneration after the trust has paid its quarterly dividends, the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 28 February 2018, 12.9% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Agreements to Resell

The Company's financial assets purchased under agreements to resell consist of the reverse repo of treasury bonds as part of its proprietary business.

The Company's reverse repo of treasury bonds increased by 218.3% from RMB298.9 million as at 31 December 2016 to RMB951.4 million as at 31 December 2017. These changes were due to the flexible adjustment of the business scale of the Company's treasury bonds repo business based on overall market condition and interest rate, and such adjustment resulted in a change in the carrying amount of the Company's reverse repo of treasury bonds as at 31 December 2017 and 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Prepayments

The Company's prepayments increased from RMB2.8 million as at 31 December 2016 to RMB19.0 million as at 31 December 2017, primarily related to the payments made by the Company for the purchase of the wealth management centre office and parking space in 2017.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Administrative Measures on Trust Industry Protection Fund issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to the Trust Industry Protection Funds and the Company should collect the required contribution funds from its counterparty clients and pays to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by the Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts. The Company records the amount of contribution funds it has paid on behalf of its counterparty clients as contribution to Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB307.2 million and RMB637.9 million as at 31 December 2016 and 31 December 2017, respectively, among which RMB205.1 million and RMB276.7 million was classified as non-current assets, and RMB102.1 million and RMB361.2 million was classified as current assets. Instead of collecting such amounts from the counterparty clients before liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. At the end of the reporting period, the Company has not encountered any difficulty in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of the Company's financing trusts.

Liabilities

As at 31 December 2016 and 31 December 2017, the Group's total liabilities amounted to RMB2,306.9 million and RMB3,754.5 million, respectively. As a trust company in China, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBRC. The Group's major liabilities during the reporting period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, dividend payable, tax payables, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 31 December 2017, net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, dividend payable, tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 71.6%, 8.7%, 0.1%, 4.8%, 2.2% and 12.6% of the Group's total liabilities, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities (both current and non-current portions)

Net assets attributable to other beneficiaries of consolidated structured entities represent third-party beneficiaries' share of net assets of the Company's consolidated trust schemes. Under PRC laws and regulations, these third-party beneficiaries' entitlements are limited to the available assets of the relevant trust schemes, and as long as the Company does not breach its duty as a trustee, the Company will not be required to use any of its proprietary assets to pay for such third-party beneficiaries' entitlements. In addition, the Company cannot pay, and are prohibited from paying, the assets of one consolidated trust scheme to pay for any beneficiary of another consolidated trust scheme either. As such, while net assets attributable to other beneficiaries of consolidated structured entities are accounted for as the Group's liabilities, such liabilities are limited to the net assets of the relevant consolidated trust scheme.

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) increased by 74.3% from RMB1,541.3 million as at 31 December 2016 to RMB2,687.0 million as at 31 December 2017. Changes in such amount mainly reflected changes in the number and net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

Tax Payable

The Company's tax payable consisted primarily of enterprise income tax payable by the Company. The Company's income tax payable increased by 161.3% from RMB68.4 million as at 31 December 2016 to RMB178.9 million as at 31 December 2017.

Other Current Liabilities

The Company's other current liabilities during the reporting period consisted mainly of proceeds due to the National Council for Social Security Fund of the PRC (全國社會保障基金理事會), and Trust Industry Protection Fund collected from counterparty clients of the Company's financing trusts, deferred trust remuneration fee income and other tax payable.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased by 127.6% from RMB58.7 million as at 31 December 2016 to RMB133.6 million as at 31 December 2017.

The Company's deferred trustee's remuneration fee income increased by 42.9% from RMB26.3 million as at 31 December 2016 to RMB37.6 million as at 31 December 2017, while other tax payable increased by 12.7% from RMB39.5 million as at 31 December 2016 to RMB44.5 million as at 31 December 2017.

Off-balance Sheet Arrangements

As at 31 December 2017, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes

The Group's results of operations and financial condition have been significantly affected by the AUM, asset quality and financial performance of the Company's consolidated trust schemes. While, under PRC laws and regulations, the assets of trust schemes under the Company's management are distinct and separate from the Company's proprietary assets and the Company is not responsible to its trustor clients or the beneficiaries for any loss of trust assets under its management, except for losses caused by the Company's failure to properly fulfill its duty as a trustee, the Company has consolidated some of the trust schemes under its management pursuant to the IFRSs. Those trust schemes are deconsolidated when the Company ceases to have control over them. During the reporting period, deconsolidation of the Company's consolidated trust schemes generally occurred when such trust schemes were disposed of or were liquidated upon the expiry of their terms.

As at 31 December 2016 and 2017, the Company consolidated 36 and 45 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB5,209.9 million and RMB6,957.6 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the reporting period.

	As at 31 December	
	2017	2016
Beginning:	36	35
Newly consolidated trust schemes	17	21
Deconsolidated trust schemes	8	20
Ending:	45	36

The consolidation of these trust schemes significantly increased the Company's total assets during the reporting period due to the inclusion of assets of these trust schemes (consisting of loans to customers, financial assets at FVTPL, available-for-sale financial assets, investments accounted for using the equity method and other assets) in the Company's total assets. The following table illustrates the impact on the Company's total assets resulting from the consolidation of these trust schemes during the reporting period:

	As at 31 December	
	2017	2016
	<i>(RMB in millions)</i>	
Total assets of the Company	10,118	7,102
Total assets of consolidated trust schemes	6,958	5,210
Consolidation adjustment	(4,174)	(3,669)
Total assets of the Group	12,902	8,648

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in total assets of consolidated trust schemes throughout the reporting period was due to the increased average size and number of consolidated trust schemes which resulted in the increase in loans to customers, financial assets at FVTPL, and investments accounted for using the equity method.

However, the impact on the Group's total assets largely corresponded to the significant increase in the Group's total liabilities due to the inclusion of liabilities of these trust schemes (presented as "Net assets attributable to other beneficiaries of consolidated structured entities" in the Group's consolidated balance sheet) in the Group's total liabilities. The following table illustrates the impact on the Group's total liabilities resulting from the consolidation of these trust schemes during the reporting period:

	As at 31 December	
	2017	2016
	<i>(RMB in millions)</i>	
Total liabilities of the Company	1,068	766
Total liabilities of consolidated trust schemes	6,958	5,210
Consolidation adjustment	(4,271)	(3,669)
Total liabilities of the Group	3,755	2,307

Increase in total liabilities of consolidated trust schemes during the reporting period was due to the increased average size and number of consolidated trust schemes.

As a result of the foregoing, the impact on the Group's net assets or equity from consolidation of these trust schemes was thus less significantly reduced. The following table illustrates the impact on the Group's total equity resulting from the consolidation of these trust schemes during the reporting period:

	As at 31 December	
	2017	2016
	<i>(RMB in millions)</i>	
Total equity of the Company	9,050	6,336
Consolidation adjustment	97	5
Total equity of the Group	9,147	6,341

MANAGEMENT DISCUSSION AND ANALYSIS

The consolidation of these trust schemes also significantly affected the Group's results of operations. For example, all trustees' remunerations the Company was entitled to from these consolidated trust schemes were eliminated as a result of consolidation and thereby reduced the Company's fee and commission income. In addition, the consolidation of these trust schemes increased the Group's interest income due to inclusion of interest income generated from loans granted by the Group's consolidated trust schemes. It also increased the Group's interest expense which represents interest income of the Group's consolidated financing trust schemes that were expected to be distributed to third-party beneficiaries of such trust schemes. However, as these impacts on income and expenses largely offset each other, the resulting impact on net profit attributable to the Company's shareholders has been reduced. The following table illustrates the impact on net profit attributable to the Company's shareholders resulting from the consolidation of these trust schemes during the reporting period:

	Year ended 31 December	
	2017	2016
	<i>(RMB in millions)</i>	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	803	884
Impact of consolidation of trust schemes	91	(51)
Net profit attributable to the Group's shareholders after consolidation of trust schemes	894	833

In determining whether a trust scheme should be consolidated involves substantial subjective judgment by the Company's management. The Company assesses whether a trust scheme should be consolidated based on the contractual terms as to whether the Company is exposed to risks of, or has rights to, variable returns from the Company's involvement in the trust and have the ability to affect those returns through the Company's power to direct the activities of the trust. Contractual terms of those consolidated trust schemes usually have some or all of the following features:

- (1) Whether the Company has power over the trust scheme, and whether the Company can exercise the rights that give the Company the ability to affect the relevant activities of the trust scheme. Usually the Company has such power when it acts as the trustee of those actively managed trusts, as the contractual terms in the trust contracts allow the Company to determine the selection of assets or projects in which the trust assets will be invested in, to perform due diligence on the assets or projects as well as the counterparties that hold the assets or projects, to determine the pricing strategy, and to be actively involved in the ongoing management and disposition of the trust assets;
- (2) Whether the Company is exposed to the risks of or has rights to, variable returns from its involvement as the trustee when the Company's returns from its involvement have the potential to vary as a result of the performance of the trust scheme. Such variable returns may either form a part of the investment returns from the trust scheme when the Company has proprietary funds invested in the trust scheme, or as floating trustee's remuneration as are calculated according the relevant terms in the trust contracts; and

MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Whether the Company controls the trust scheme that the Company not only has power over the trust scheme and exposure or rights to variable returns from its involvement, but also has the ability to use its power to affect the returns from the trust scheme. As the Company is responsible for the planning, pricing, setting the beneficial rights, management and operations of those actively managed trust schemes as the trustee, the Company may have the ability to significantly affect its returns from such trust schemes. For example, where the Company subscribes a significant portion of a trust scheme, or in case the Company decides to provide liquidity support to a troubled trust, the Company intentionally uses its rights as the trustee and ability of investing using proprietary funds, to associate itself with the variable returns from such trust schemes.

Under IFRSs, the greater the magnitude and variability of the returns that the Company is exposed to from the Company's involvement with a trust scheme, the more likely the Company will be deemed to have control over the trust scheme and be required to consolidate it. However, there is no bright line test and the Company is required to consider all relevant factors as a whole.

Given the Company's limited decision-making authority over administrative management trusts and because the Company has not made any proprietary investment in the Company's administrative management trusts during the reporting period, the Company had not been required to consolidate any administrative management trusts during the reporting period.

With respect to the Company's actively managed trusts, the Company is more likely to be required to consolidate those in which it has made proprietary investments and therefore may be subject to substantial variable return resulting from such investments. The contract terms of the Company's consolidated actively managed trust schemes with respect to the Company's power and authority do not differ materially from those of its unconsolidated actively managed trusts. The amount of proprietary investment the Company has made in an actively managed trust as a percentage of its total trust assets has been, and will be, a differentiating factor in determining whether the Company was, and will be, required to consolidate such trust. Variable return may also be affected by allocation and distribution of trust beneficiaries pursuant to the terms and conditions of respective trust contract, when the Company determines whether a trust scheme should be consolidated or not.

During the reporting period, the Company had not consolidated any administrative management trust schemes and had not consolidated any actively managed trust schemes in which it did not make any proprietary investments.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET ANALYSIS AND RISKS

Factors Affecting the Company's Results of Operations

The following factors are the principal adverse and favourable factors that have affected and, the Company expects, will continue to affect the Company's business, financial condition, results of operations and prospects.

General Economic and Financial Market Conditions

The Company's business operations are conducted in China and most of the Company's income is generated within China. As a financial institution in China, the Company's business, financial condition, results of operations and prospects are significantly affected by general economic and financial market conditions of China.

While the Chinese economy has experienced rapid growth over the past 30 years, it has gradually entered a "new normal" stage characterised by deceleration in growth rate and economic structure optimisation and upgrading. Given the overcapacity in some manufacturing industries including the steel, cement sectors, the high debt ratios of certain local governments, and overreliance of the entire economy on the real estate sector, the PRC government is promoting supply-side reform to address overcapacity, deleverage the financial industry, and control the irrational growth of the real estate sector.

The structural transformation of the Chinese economy and other changes in financial market conditions present both challenges and opportunities for the Company's trust business. For example, slower growth in the real estate and other industrial or commercial sectors in China and restrictions on local governments to incur debts may negatively affect the Company's trust business that focus on providing financings to these sectors. Measures taken by the PRC government to address slowdown in the Chinese economy, including the launch of alternative financing channels and the expansion of banking business, may drive down financing costs and create certain downward pressure on the investment return of the Company's trust schemes. The Company's clients may reduce their investment activities or financing needs during times of economic slowdown, which may reduce the demand for the Company's various types of trust products. Financial risks of individual cases may break out more often during times of economic slowdown, which may increase the default risks of the Company's counterparties. On the other hand, the Company may identify new business opportunities during such economic transformation and take advantages of the changes in financial market conditions and the Company may increase its business in areas that can counteract the impact of downward economic cycle. There are, however, uncertainties in the Company's ability to effectively respond to changes in general economic and financial market conditions and increase in its new business may not be able to offset decrease in its traditional business, and therefore, the Company expects its trust business to continue to be significantly affected by general economic and financial market conditions in China.

The Company has made proprietary investments in various financial institutions in China, and a significant portion of the Company's proprietary assets are held in the form of various kinds of financial products. The value of these investments is materially affected by the general economic conditions, performance of the capital markets and general investor sentiment. As such, changes in general economic and financial market conditions of China will also affect the value of, and investment income from, the Company's various proprietary investments.

MANAGEMENT DISCUSSION AND ANALYSIS

Regulatory Environment

The Company's results of operations, financial condition and prospects are affected by regulatory developments in the PRC. In particular, the Company believes that its ability to expand its business and broaden the scope of the Company's product and service offerings has been, and will continue to be materially affected by changes in the policies, laws and regulations governing the Trust Industry in China, including the extent to which the Company can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC Trust Industry has been evolving, and the main regulatory authority for the industry, the CBRC, has been continuously monitoring the development status of this industry and issuing various regulations and policies to encourage or discourage or even prohibit certain types of trust business or practice from time to time. The Company will need to continuously adjust its trust business and practice to conform to these changing regulations and policies, which may have positive or negative impact on the size or profitability of the Company's trust business. The Company believes the CBRC is committed to reforming the PRC Trust Industry with a view of enhancing PRC trust companies' active assets management capability, enhancing their net capital, optimising their risk management, and broadening the scope of their products and services. As the Company's development strategies are in line with these regulatory initiatives, the Company believes the evolvement of the regulatory environment for the PRC Trust Industry will likely have a positive effect on the Company's overall business and financial performance. For example, as the CBRC started to allow trust companies to establish dedicated subsidiaries to engage in certain businesses outside the traditional trust business, the Company plans to establish dedicated subsidiaries to engage in real estate investment, private equity investment, family trust and wealth management businesses to elevate the Company's professional management and service capabilities and expand the relevant businesses. However, the CBRC may also restrict the development of certain trust business from time to time for various reasons such as when it deems the risks of certain trust business is too high, and such restrictions may have an adverse effect on some of the Company's trust business.

In addition, the regulatory environment of other financial industries in China may also indirectly impact the Company's trust business. The Company has traditionally benefited from the expanded business scope under the Company's trust license. However, there has been a general trend towards liberalising the financial sectors in China and, as a result, other financial institutions may be able to offer an increasing number of products and services that are similar to these offered by the Company and the Company may lose some of the Company's advantages and faces increased competition as a result.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Lines and Product Mix

The Company has two business segments, namely trust business and proprietary business. The Company's historical financial results were significantly affected by the fee and commission income from the Company's trust business. As a result, any material changes in the Company's trust business, such as in terms of client development, growth strategies and regulatory requirements, may significantly affect the Company's financial condition and results of operations. The Company also offers a variety of trust products. The Company has actively managed trusts, which generally allow it to charge relatively higher trustee's remuneration rates, and administrative management trusts, whose trustee's remuneration rates are relatively lower. Within actively managed trusts, the Company has financing trusts that focus on providing financings to counterparty clients in different industries and investment trusts that focus on investing the Company's trustor clients' assets into different asset classes. Therefore, different types of trust products will have different risk-and-return profiles and will require different level of management efforts from the Company, which will affect the trustee's remuneration of the Company. As a result, the overall financial performance of the Company's trust business would be significantly affected by the relative weight of different types of trust products the Company provides in a particular period. The Company also generates interest income and investment income from its proprietary business by allocating its proprietary assets into different asset classes. The performance of the Company's proprietary business is affected by its proprietary assets allocation plan, market condition, interest rate as well as the Company's investment and risk management capability, and will also significantly affect the Company's financial position and results of operation.

The Company plans to continue to diversify the Company's trust products by designing more trust products tailored to different and emerging new demands and providing more active assets management services. As a result, the Company's future results of operations and financial condition could be significantly affected by the Company's ability to design, develop and manage more trust products that are attractive to the Company's counterparty clients and trustor clients and allow the Company to maintain or increase the trustee's remuneration rates. The Company also seeks to further improve its proprietary business by optimising the Company's assets allocation and making more long-term investments in financial institutions with strategic value to the Company's core trust business, and the Company's success in this regard is also expected to significantly affect the Company's future results of operations and financial condition.

Competition

The Company faces competition from other trust companies in China. The Company competes with these trust companies in terms of client base, knowledge of the relevant industries, active management capability, innovation capability, reputation, creditworthiness, shareholders' background and support. The Company will continue to monitor the pricing of its products and services against the Company's competitors and adjust the trustee's remuneration rates of the Company and other fee structures to enhance the Company's competitive position while maintaining its profitability.

The Company also faces competition from various other financial institutions. For the Company's financing trusts, the Company competes with other potential financing sources, such as commercial banks and investment banks, for the Company's counterparty clients and the intensity of competition from other financing sources will affect the number and quality of the Company's counterparty clients as well as the level of interest the Company can charge on financings to the Company's counterparty clients and thereby affect the Company's operating income and profitability. For the Company's investment trusts, the Company competes with various other financial institutions that provide assets and wealth management services. Given the changes of regulation policies on various financial sectors, various types of financial institutions such as commercial banks, securities firms, fund management companies, private equity funds and insurance companies have diversified their assets and wealth management services. As such, the Company's ability to grow its investment trust business depends on the Company's ability to effectively compete with these other financial institutions through offering a variety of trust products that are tailored to the different needs of the Company's trustor clients and offer relatively high and stable investment returns.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Rate Environment

The Company's business is also affected by changes in interest rates, which fluctuate continually and may be unpredictable and highly volatile. Interest rates in China are regulated by the People's Bank of China. The Company's business and results of operations are affected by changes in interest rates in different ways, such as:

- Changes in lending rates may affect the comparative financing costs for the Company's counterparty clients from different financing sources and thereby affect their willingness to raise financings through the Company's trust products;
- Changes in deposit interest rates may affect the comparative investment returns to the Company's trustor clients from different investment options and thereby affect their willingness to invest in the Company's trust products;
- Changes in lending rates may affect the amount of interest income generated from loans provided to the Company's counterparty clients by the Company's trust schemes or itself using the Company's proprietary assets and thereby affect the amount of the trustee's remuneration of the Company as well as the Company's interest income from consolidated trust schemes and its proprietary loans; and
- Changes in interest rates may also affect the value of various types of financial assets held by the Company's trust schemes or itself as proprietary assets. For example, an increase in interest rates may cause a decline in the market value of fixed-income securities and thereby reduce the net assets value of the trust schemes holding such securities or the Company's proprietary business.

The Company is exposed to various market risks, including macro-economic risk, risks associated with capital market and foreign exchange risk.

Macro-economic Risks

The business that the Company is engaged in is materially affected by conditions in the Chinese economy and financial markets which are outside the Company's control, including volatility of interest rates, inflation, upward and downward trends in the industrial and financial sectors, monetary and fiscal policies, foreign exchange policies and currency fluctuations, taxation policies and other macroeconomic policies, as well as laws and regulations affecting the financial industries. In particular, the Company's financing trusts business has focused on the real estate industry, governmental infrastructure projects and industrial and commercial enterprises. As a result, the Company's financing trusts business is closely related to industries which could be adversely affected by downturns or lackluster in the Chinese economy. While the Company's securities investment trusts and proprietary securities investments may be affected by the Chinese macro-economy, such as the growth in GDP, liquidity, financing costs, changes in interest rates, monetary policies, fiscal policies, other macro-economic policies as well as laws and regulations affecting the financial and securities industries, etc.

All of the above have had and may continue to have a material adverse effect on the Company's business, financial condition and results of operation. In particular, the volume of the Company's trust business may decline and the Company's income from trust business may decrease. The Company will encounter the challenge of constantly offering reasonable investment returns to the Company's trustor clients while effectively controlling risks of the Company's trusts at the same time. The Company may also incur substantial loss on the Company's proprietary investments.

MANAGEMENT DISCUSSION AND ANALYSIS

Risks associated with Capital Market

The Company's securities investment trusts and proprietary securities investments are directly affected by the inherent risks associated with the capital markets in China, such as market volatility, overall investment sentiments, fluctuations in capital raising and trading volumes and the creditworthiness of the securities industry. Unfavourable economic or capital market conditions may materially and adversely affect the value of the securities held by the Company's securities investment trusts and the Company's proprietary securities investments. As a result, the net assets value of the Company's securities investment trusts may decrease. The trustee's remuneration of the Company from such trusts will decrease accordingly.

Foreign Exchange Risks

The exchange rate of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic circumstances and the PRC Government's fiscal and currency policies. In March 2014, the People's Bank of China further enlarged the floating band for the trading price of RMB against the U.S. dollars on the inter-bank spot exchange market to 2.0% around the central parity rate. The domestic currency policy and economic situation could lead to further appreciation or depreciation of the Renminbi against the U.S. dollars. There can be no assurance that the Renminbi will not experience significant appreciation or depreciation against the U.S. dollars in the future.

RISK MANAGEMENT

Overview

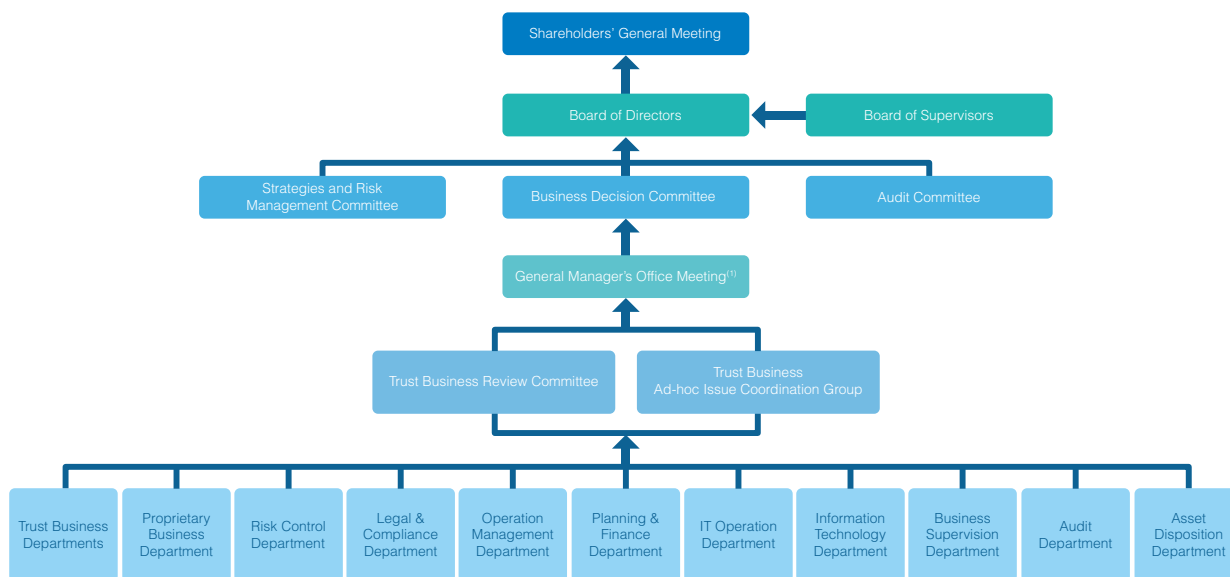
The Company has been devoted to establishing risk management and internal control systems consisting of objectives, principles, organisational framework, procedures and methods against key risks that the Company considers to be appropriate for its business operations, and the Company has developed a comprehensive risk management system covering all aspects of its business operation. The sophisticated risk management culture, target-oriented and sound risk management system and mechanisms of the Company ensure the sustainable and stable operation of the Company's business and provide a solid basis for the Company's identification and management of risks involved in its business operation.

Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) shareholders' general meeting; (2) the Board and its Strategies and Risk Management Committee, Audit Committee and Business Decision Committee; (3) the board of supervisors; (4) General Manager's Office Meeting; (5) Trust Business Review Committee; (6) Trust Business Ad-hoc Issue Coordination Group and (7) other functional departments, including the Risk Control Department, Legal & Compliance Department, Operation Management Department, Planning and Finance Department, Information Technology Department, Business Supervision Department, Audit Department and Asset Disposition Department. Finally, all Trust Business Departments of the Company (including Regional Business Units) are required to assume primary risk management responsibilities.

MANAGEMENT DISCUSSION AND ANALYSIS

The organisational structure of the Company's risk management system is as follows:



Note:

- (1) Covering all senior management members of the Company, including its general manager, deputy general manager, secretary to the Board, chief risk control officer and chief financial officer.

Credit Risk Management

Credit risk refers to the risk that the clients and counterparties of the Company fail to fulfill contractual obligations. The credit risk of the Company arises from the Company's trust business and proprietary business.

During the reporting period, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the CBRC, under the leadership of the Strategies and Risk Management Committee of the Board and the senior management, the Company focused on facilitating the realisation of strategic goals by improving credit risk management system and system establishment, reinforcing risk management over key areas so as to control and mitigate credit risks in full swing.

Credit Risk Management on Trust Business

The credit risk of the Company's trust business mainly refers to the risk that the Company, as the trustee, fails to receive the Company's due remuneration which is agreed in the trust contracts. The majority of the Company's trusts are financing trusts, under which the failure of fulfilling the repayment obligations by the counterparty clients of the Company, or the ultimate borrowers, will negatively affect the Company's ability to receive its remuneration. The Company assesses and manages such default risk through comprehensive due diligence, stringent internal approval and trust establishment procedures as well as ex-post inspections and monitoring. The Company obtains third party guarantee and collateral as credit enhancements in order to mitigate the default risk by borrowers and the Company may ask for additional collaterals

MANAGEMENT DISCUSSION AND ANALYSIS

in case the value of the original collaterals become insufficient. Under circumstances where the Company assesses the likelihood of such default becomes relatively high, the Company may take necessary resolution and disposition measures in a timely manner to minimise the potential loss.

Credit Risk Management on Proprietary Business

The proprietary business of the Company mainly includes the Company's own debt and equity investments. The management of the Company had formulated an annual asset allocation plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board. The Company maintains a diversified investment portfolio for the Company's proprietary business and has established detailed internal risk management policies and procedures for each type of investment.

Market Risk Management

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. It mainly represents the volatility risk arising from price risk, interest rates risk and foreign exchange risk. During the reporting period, the Company managed such risk mainly through the Company's diversified and carefully selected investment portfolio and stringent investment decision-making mechanism.

Liquidity Risk Management

Liquidity risk refers to the risk that the Company may not be able to generate sufficient cash to settle the Company's debts in full as the trusts fall due or may only do so on terms that are materially disadvantageous to the Company.

During the reporting period, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserve and financial assets that could be readily convertible into cash. The Company holds sufficient unrestricted cash at bank and in hand to satisfy the capital need for the daily operation of the Company.

Compliance Risk Management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, disciplinary penalties or loss of property or reputation because the Company's business activities or those activities of the Company's employees violated the relevant laws, regulations or rules.

The Company had formulated various compliance rules and policies and had established a Legal & Compliance Department to monitor the overall compliance status of each aspects of the daily operation of the Company. During the reporting period, the Legal & Compliance Department of the Company also continuously tracked the latest development of the relevant laws, regulations and policies and submitted proposals on the formulation of and amendments to the relevant internal regulations and policies to the relevant departments. Moreover, the Company organised various training programs for the employees from different departments based on the nature of their respective business activities and periodically provided updates relating to the current legal and regulatory requirements and the Company's internal policies on an on-going basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Risk Management

Operational risk refers to the risk of financial loss resulting from the improper operation of transactional processes or the management system. During the reporting period, to minimise the operational risk, the Company implemented strict operational risk control mechanisms to reduce the risks of technical irregularities or human errors and enhanced the effectiveness of the operational risk management. In addition, the Audit Department of the Company regularly conducted internal auditing and evaluated the effectiveness of the operational risk management.

Reputational Risk Management

The Company values its positive market image which has been built over the years. It actively implements effective measures to avoid and prevent from any harm to its reputation. The Company formulated the Administrative Measures on Reputational Risk Management. During the reporting period, the Company enhanced customer loyalty with its outstanding wealth management capability and at the same time, promoted its external publicity, actively performed social responsibilities and created multiple channels to communicate with the regulatory authorities, media, public and other stakeholders to strengthen the Company's core corporate values of "Professionalism, Integrity, Diligence and Accomplishment".

Other Risk Management

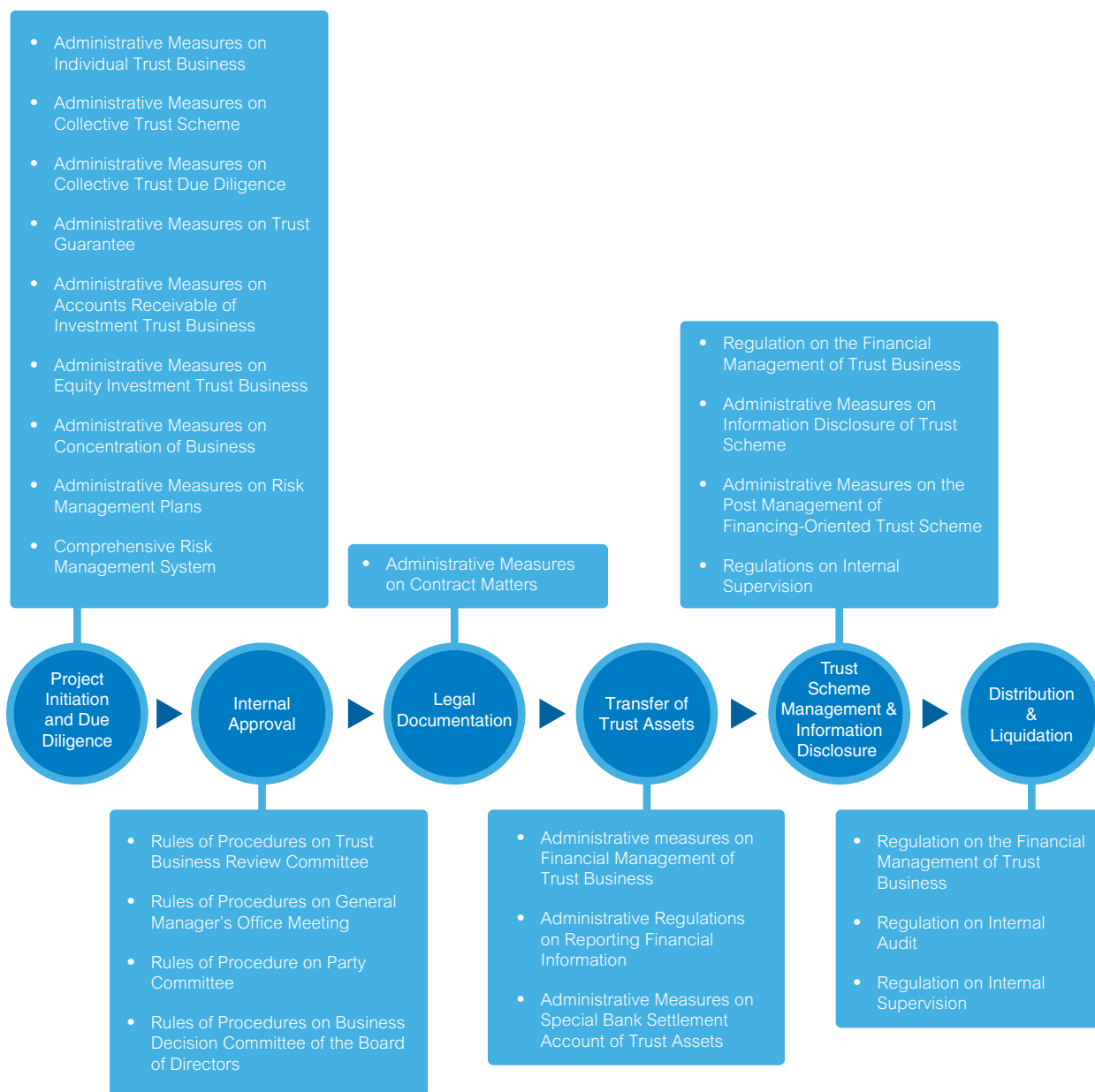
During the reporting period, the Company enhanced its foresight and adaptability and controlled the policy risks by analysing and researching on the national macro-economic policies and industrial policies. A sound corporate governance structure, an internal control system and business operational procedures had been established to ensure complete and scientific work logistics. The Company consistently strengthened the ideological education for its employees, fostered their awarenesses of diligence and dedication, and advanced their risk management concepts to prevent moral risks. At the same time, the Company carried out extensive educational activities for all of its employees to strengthen their sense of occupational integrity. The Company also designated specific legal positions and engaged legal advisers on annual basis to control the legal risks effectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Risk Management Systems and Policies

The Company has put in place systems and policies in every aspect and stage of our business operation. These internal systems constitute a complete risk management system.

The main systems and policies applicable to the Company's trust business may be illustrated as follows:



MANAGEMENT DISCUSSION AND ANALYSIS

The main systems and policies governing the proprietary business of the Company include Rules of Procedures on Business Decision Committee of the Board of Directors (董事會業務決策委員會議事規則), Rules of Procedures on Party Committee (黨委會議事規則), Rules of Procedures on General Manager's Office Meeting (總經理辦公會議事規則), Administrative Measures on Proprietary Long-Term Equity Investments (自有資金長期股權投資業務管理辦法), Administrative Measures on Proprietary Securities Investment (自營證券業務管理辦法), Administrative Measures on Proprietary Loans (自有資金貸款業務管理辦法), Administrative Measures on Proprietary Financial Products Investment (自有資金認購理財產品管理辦法), and Administrative Measures on Inter-bank Lending and Borrowing (自有資金同業拆借管理辦法).

Anti-money Laundering Management

During the reporting period, the Company performed anti-money laundering obligations of the Company in accordance with the applicable anti-money laundering laws and regulations of the PRC and adopted its own Administrative Measures on Anti-Money Laundering (反洗錢管理辦法). Such measures set out the anti-money laundering system of the Company and regulate the anti-money laundering management of the Company, ensuring that the Company can perform the anti-money laundering obligations in accordance with the applicable anti-money laundering laws and regulations.

The Company established an Anti-Money Laundering Working Group for anti-money management, appointed the General Manager of the Company as the chairperson of the group, and the Vice General Manager who was responsible for legal and compliance matters as the vice chairperson of the group, and the heads of other relevant departments as members of the group. The Company also established an anti-money laundering office under the Anti-Money Laundering Working Group, consisting of the heads of the Planning & Finance Department, Risk Control Department, Operation Management Department, Legal & Compliance Department, Wealth Management Center and Information Technology Department, in order to organise and conduct anti-money laundering management.

Pursuant to the Company's Administrative Measures on Anti-Money Laundering, the Company has established a client identification system, which requires employees of the Company to effectively verify and continuously update the identification information of the Company's clients. For example, employees of the Company are required to conduct comprehensive background due diligence on the potential clients, including verifying the validity of the identification information provided, such as the respective corporate certification for enterprises and individuals, or individual identity cards, as well as understanding sources of funds, liquidity and potential transaction purposes of such potential clients. Also, employees of the Company are required to continuously update such clients' identification information during its daily operation, in particular where there are any material change. Employees shall conduct further investigations if any irregularity is identified in connection with the clients' operational or financial status, or their usual transaction patterns, or there was any discrepancy between any new information available to the Company and the information previously provided to the Company, or any suspicious activities involving money laundering or terrorist financing. The Company may terminate the business relationship with a client if it fails to provide it with the most updated and valid identification documents within a certain period upon the Company's request. The identification information of the Company's clients is recorded and archived in accordance with the relevant PRC laws. Such identification information and any information or materials relating to the Company's transactions and accounts with the Company would be kept for at least five years after the relevant party ceases to be a client of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Company's Administrative Measures on Anti-Money Laundering also specify certain criteria of demining a suspicious transaction and establish a suspicious transaction reporting system. Based on such criteria, business departments of the Company are required to immediately report to the Anti-Money Laundering office of the Company if they identify any suspicious transaction during their daily operation. The Anti-Money Laundering office is required to conduct investigation and analysis on the reported transaction. Once confirmed, it is required to report such transaction to the Anti-Money Laundering Working Group of the Company, which shall also report to the PRC Anti-Money Laundering Monitoring and Analysis Center led by the People's Bank of China within 10 days of the transaction in accordance with the relevant laws and regulations.

CAPITAL MANAGEMENT

The Company's capital management is centered on net capital and risk-based capital, with an objective to meet external regulatory requirements, balance the risk and return and maintain an appropriate level of liquidity.

The Company prudently determines the objectives of net capital and risk-based capital management that are in accordance with regulatory requirements and are in line with its own risk exposure. Generally, the capital management measures include adjustment of dividend distribution and raising new capital.

The Company monitors its net capital and risk-based capital regularly based on regulations issued by the CBRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBRC on a quarterly basis.

Total risk-based capital is defined as the aggregate of (i) risk-based capital of the Company's proprietary business; (ii) risk-based capital of the Company's trust business; and (iii) risk-based capital of the Company's other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for the Company's proprietary business, and 0.1% to 9.0% for the Company's trust business.

As at 31 December 2017, the Company's net capital was approximately RMB7,943 million, which is not less than RMB200 million; the total risk-based capital was approximately RMB3,947 million; the ratio of net capital to total risk-based capital was 201.2%, which is not lower than 100%; and the ratio of net capital to net asset was 87.8%, which is not lower than 40%.

HUMAN RESOURCES MANAGEMENT

Targeted at enhancing human resources value for the human resources work in 2017, the Company adheres to its corporate strategies, further raises its capability, optimises its structure, refines its management, innovates its mechanisms and inspires its vitality to push forward intelligent management of human resources, which provides solid organisational assurance and talents support to the Company's advance and transformation.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthen the supervision and guidance on staff selection and appointment. The Company further enhances the scientific standard of its leadership management. The Company also enhances teambuilding and organises training sessions to nurture employees, which provides a talents pool for the Company's development. The Company commenced specific governance work on staff selection and appointment, and specifically rectified the problems identified to ensure that the special governance work has been effectively implemented. Through the specific governance work, we have standardised the procedures on staff selection and appointment and improved its credibility.

Continuously optimise the structure of human resources and standardise the management of staffing. The Company further optimised the total staff scale control methods according to its business development and the existing level of human resources efficiency and strictly carried out the management of total staff scale. At the same time, it provides the tools and guidelines in managing staff scale and optimise the structure through implementation of human resources rolling plan and annual efficiency benchmarking.

Strengthen the development of human resources information system and improve the standard of management. Adhering to the Company's strategic transformation and value enhancement, the Company optimised business processes and system functions, standardised business operations and broadened business application.

We believe the competence and loyalty of its employees are vital to its sustainable growth. The Company has adopted a market-oriented performance assessment and incentive system, under which compensation is linked to employee's performance. Performance assessment systems provide the basis for human resources related decisions such as compensation adjustment, bonus distribution, promotion, talent development, and employee incentives.

We provide social insurance (including pension insurance, medical insurance, employment injury insurance, unemployment insurance, and maternity insurance) and housing provident fund for its employees in accordance with the relevant laws and regulations of the PRC. The Company also provides supplementary pension insurance and medical insurance for employees.

We provide a diverse range of trainings to employees, including orientation for new hires, professional skill training, qualification training and professional technology management training to improve employees' professional skills, and provide them with diversified career paths in order to better attract and retain talent. The Company has various training types, including video training, field training, domestic and overseas study, general trainings and targeted trainings. The Company combines various content and training types to provide tailor-made and effective trainings.

Our employees have participated in labour unions that safeguard the rights and interests of its employees, and coordinate closely with management with respect to human resources matters. The Company's operations have never been affected by any strike or significant labour dispute. The Company believes its management will continue to maintain good relationships with the labour union and its employees.

MANAGEMENT DISCUSSION AND ANALYSIS



Enhancing the sense of belonging, sense of honour and sense of happiness of employees through organising afterwork activities, awarding outstanding employees and performing group expansion; regularly organising seminars to enhance safety awareness of employees

As at 31 December 2016 and 31 December 2017, the Company has a total of 192 and 199 employees, respectively. The number and percentage of different employees by departments are as follows:

	31 December 2016		31 December 2017	
	Number of employees	%	Number of employees	%
Management	8	4.17	7	3.52
Trust business employees	76	39.58	76	38.19
Proprietary business employees	5	2.61	5	2.51
Wealth management employees	14	7.29	19	9.55
Risk management and audit employees	21	10.94	24	12.06
Financial and accounting employees	15	7.81	17	8.54
Operation management employees	25	13.02	30	15.08
Other staff ⁽¹⁾	28	14.58	21	10.55
Total	192	100	199	100

Notes:

(1) Includes employees from the Company's human resources department, research and development department as well as other backup departments.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2016 and 31 December 2017, the details of employees by age are as follows:

	31 December 2016		31 December 2017	
	Number of employees	%	Number of employees	%
Aged 25 and below	7	3.65	4	2.01
Aged 25–29	60	31.25	48	24.12
Aged 30–39	75	39.06	98	49.25
Aged 40 and above	50	26.04	49	24.62
Total	192	100	199	100

As at 31 December 2016 and 31 December 2017, the details of employees by education level are as follows:

	31 December 2016		31 December 2017	
	Number of employees	%	Number of employees	%
Doctoral degree and above	6	3.12	6	3.01
Master's degree	129	67.19	135	67.84
Bachelor's degree	47	24.48	48	24.12
Junior college and below	10	5.21	10	5.03
Total	192	100	199	100

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

CHANGES IN SHARES

Category of shares	31 December 2016			31 December 2017	
	Number of shares	Percentage (%)	Increase or decrease during the reporting period	Number of shares	Percentage (%)
Domestic Shares	2,000,000,000	100	-58,825,000 ⁽¹⁾	1,941,175,000	75
H Shares	-	-	+647,075,000 ⁽¹⁾	647,075,000	25
Total	2,000,000,000	100	+588,250,000	2,588,250,000	100

Note:

- (1) During the reporting period, the Company was listed on the Hong Kong Stock Exchange on 8 December 2017. A total of 647,075,000 H Shares were issued during the global offering (including 588,250,000 H Shares issued during the global offering and 58,825,000 H Shares converted from Domestic Shares and proposed for sale during the global offering).

NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

As at 31 December 2017, according to the register of members of the Company, the Company had 77 holders of H Shares (provided by H Share Registrar) and 6 holders of Domestic Shares in total.

As at 31 December 2017, the shareholding of top ten shareholders of the Company is set out as follows (shareholding of H Shares are calculated based on the number of shares stated in the register of members of the Company established in the H Share registrar):

Number	Name of shareholder(s)	Increase or decrease during the reporting period (+/-)	Number of shareholding as at the end of the reporting period	Shareholding ratio as at the end of the reporting period (%)	Number of shares held subject to trading moratorium ⁽¹⁾	Nature of shareholder(s)	Type of shares
1	Lucion Group	-40,748,567 ⁽²⁾	1,219,668,100	47.12	1,219,668,100 ⁽³⁾	Domestic state-owned legal person	Domestic Shares
2	CNPC Assets Management	-14,706,250 ⁽²⁾	485,293,750	18.75	485,293,750 ⁽³⁾	Domestic state-owned legal person	Domestic Shares
3	HKSCC Nominees Limited ⁽⁴⁾	+375,463,000	375,463,000	14.51	175,788,000 ⁽⁵⁾	Overseas legal person	H Shares
4	Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司)	+140,425,000	140,425,000	5.43	129,400,000 ⁽⁶⁾	Domestic state-owned legal person	H Shares

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Number	Name of shareholder(s)	Increase or decrease during the reporting period (+/-)	Number of shareholding as at the end of the reporting period	Shareholding ratio as at the end of the reporting period (%)	Number of shares held subject to trading moratorium ⁽¹⁾	Nature of shareholder(s)	Type of shares
5	Qingdao Global Wealth Center Development and Construction Co., Ltd.* (青島全球財富中心開發建設有限公司)	+130,900,000	130,900,000	5.06	–	Domestic state-owned legal person	H Shares
6	Shandong High-Tech Venture Capital Co., Ltd.* (山東省高新技術創業投資有限公司)	0	125,000,000	4.83	125,000,000 ⁽³⁾	Domestic state-owned legal person	Domestic Shares
7	Shandong Gold Group Co., Ltd.* (山東黃金集團有限公司)	-1,348,073 ⁽²⁾	44,485,260	1.72	44,485,260 ⁽³⁾	Domestic state-owned legal person	Domestic Shares
8	Jinan Energy Investment Co., Ltd.* (濟南市能源投資有限責任公司)	-1,011,055 ⁽²⁾	33,363,945	1.29	33,363,945 ^{(3),(7)}	Domestic state-owned legal person	Domestic Shares
9	Weifang Investment Group Co., Ltd.* (濰坊市投資集團有限公司)	-1,011,055 ⁽²⁾	33,363,945	1.29	33,363,945 ⁽³⁾	Domestic state-owned legal person	Domestic Shares
10	Individual shareholder ⁽⁷⁾	+87,000	87,000	0.00	–	Overseas individual	H Shares

Notes:

- (1) "Shares subject to trading moratorium" means shares subject to transfer limitations as required by laws and regulations or based on undertaking by shareholders.
- (2) During the reporting period, the decrease in shareholding of Lucion Group, CNPC Assets Management, Shandong Gold Group Co., Ltd., Jinan Energy Investment Co., Ltd. and Weifang Investment Group Co., Ltd. was due to the reduction in shareholding of state-owned shares as a selling shareholder at the time of listing of H Shares of the Company.
- (3) According to the Company Law of the PRC, the issued shares before public offering shall not be transferred within one year from the date of listing.
- (4) HKSCC Nominees Limited ("**HKSCC Nominees**"), as an agent, held the total number of H Shares (excluding the H Shares held by Jinan Finance Holding Group Co., Ltd. and Qingdao Global Wealth Center Development and Construction Co., Ltd. through HKSCC Nominees stated in the above table).
- (5) Such shares were held by Industrial and Commercial Bank of China Limited – wealth management agent, Shandong Development & Investment Holding Group Co., Ltd., asset management department of China Merchants Bank Co., Ltd. and Shandong Guohui Investment Co., Ltd. as the cornerstone investors of the Company through HKSCC Nominees, and was subject to a lock-up period of six months from the Listing Date under the cornerstone investment agreement.
- (6) Such shares were held by Jinan Finance Holding Group Co., Ltd. as a cornerstone investor of the Company, and was subject to a lock-up period of six months from the Listing Date under the cornerstone investment agreement.
- (7) According to the two notices received by the Company from an intermediate court in the PRC, 30,000,000 Domestic Shares held by Jinan Energy Investment Co., Ltd. shall not be disposed of during the period from 30 November 2016 to 27 November 2019. The notices were issued in response to a property preservation application in relation to a civil litigation by a third party against Jinan Energy Investment Co., Ltd.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

In the abovementioned shareholders, the Company is not aware of related party relationship or parties acting in concert between the abovementioned shareholders save that Shandong High-Tech Venture Capital Co., Ltd. is an indirect non-wholly owned subsidiary of Lucion Group.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the Company has been notified by the following persons in relation to their interests or short positions in the shares and underlying shares of the Company which are discloseable pursuant to Divisions 2 and 3 of Part XV of the SFO, and such interests or short positions recorded in the register required to be kept under section 336 of the Hong Kong SFO are as follows:

Name of Shareholder	Class of shares	Nature of interests ⁽¹⁾	Number of underlying shares held	Approximate percentage of the class of underlying shares ⁽²⁾	Approximate percentage of total share capital ⁽²⁾
Shandong High-Tech Venture Capital Co., Ltd. ⁽³⁾	Domestic Shares	Beneficial owner	125,000,000	6.44%	4.83%
Lucion Venture Capital Group Co., Ltd. ⁽³⁾	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%
Shandong Lucion Investment Holdings Group Co., Ltd. ⁽⁴⁾	Domestic Shares	Beneficial owner	1,219,668,100	62.83%	47.12%
		Interest in a controlled corporation	125,000,000	6.44%	4.83%
Shandong Provincial State-owned Assets and Administration Commission ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
Shandong Provincial Council for Social Security Fund ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
CNPC Assets Management Co., Ltd. ⁽⁵⁾	Domestic Shares	Beneficial owner	485,293,750	25.00%	18.75%
CNPC Capital Company Limited ⁽⁵⁾	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability ⁽⁵⁾	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
China National Petroleum Corporation ⁽⁵⁾	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government ⁽⁶⁾	H Shares	Interest in a controlled corporation	140,425,000 ⁽⁷⁾	21.70%	5.43%
Jinan Finance Holding Group Co., Ltd. ⁽⁶⁾	H Shares	Beneficial owner	140,425,000 ⁽⁷⁾	21.70%	5.43%

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Class of shares	Nature of interests ⁽¹⁾	Number of underlying shares held	Approximate percentage of the class of underlying shares ⁽²⁾	Approximate percentage of total share capital ⁽²⁾
Qingdao Global Wealth Center Development and Construction Co., Ltd. ⁽⁸⁾	H Shares	Beneficial owner	130,900,000	20.23%	5.06%
Qingdao Laoshan District Finance Bureau ⁽⁸⁾	H Shares	Interest in a controlled corporation	130,900,000	20.23%	5.06%
China Create Capital Limited	H Shares	Beneficial owner	64,737,000	10.00%	2.50%
Industrial and Commercial Bank of China Limited. ⁽⁹⁾	H Shares	Beneficial owner	62,924,000	9.72%	2.43%
China Asset Management Co., Ltd. ⁽⁹⁾	H Shares	Investment manager	62,924,000	9.72%	2.43%
Dingxin Company Limited ⁽¹⁰⁾	H Shares	Beneficial owner	51,315,000	7.93%	1.98%
Honesty Global Holdings Limited ⁽¹⁰⁾	H Shares	Interest in a controlled corporation	51,315,000	7.93%	1.98%
Ou Guofei ⁽¹¹⁾	H Shares	Founder of a discretionary trust	51,315,000	7.93%	1.98%
Ou Zonghong ⁽¹¹⁾	H Shares	Beneficiary of a trust	51,315,000	7.93%	1.98%
TMF (Cayman) Ltd. ^{(10),(11)}	H Shares	Trustee	51,315,000	7.93%	1.98%
Xu Lixiang ⁽¹¹⁾	H Shares	Interest of spouse	51,315,000	7.93%	1.98%
Shandong Development & Investment Holding Group Co., Ltd.	H Shares	Beneficial owner	51,272,000	7.92%	1.98%
HWABAO TRUST CO., LTD.	H Shares	Trustee	35,974,000	5.56%	1.39%

Notes:

- (1) All of the interests refer to long positions.
- (2) As at 31 December 2017, the total number of shares issued by the Company was 2,588,250,000, of which there were 1,941,175,000 Domestic Shares and 647,075,000 H Shares in issue.
- (3) Shandong High-Tech Venture Capital Co., Ltd. is a direct wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. Lucion Venture Capital Group Co., Ltd. is therefore deemed to be interested in all of the shares of the Company held by Shandong High-Tech Venture Capital Co., Ltd.
- (4) Shandong Lucion Investment Holdings Group Co., Ltd. is owned as to 70% by Shandong Provincial State-owned Assets and Administration Commission and as to 30% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會). Shandong High-Tech Venture Capital Co., Ltd. is an indirect non-wholly owned subsidiary of Shandong Lucion Investment Holdings Group Co., Ltd. Shandong Lucion Investment Holdings Group Co., Ltd. is therefore deemed to be interested in all of the shares of the Company held by Shandong High-Tech Venture Capital Co., Ltd.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

- (5) CNPC Assets Management is a direct wholly-owned subsidiary of CNPC Capital Company Limited and CNPC Capital Company Limited is wholly-owned by CNPC Joint Stock Company with Limited Liability. CNPC Capital Joint Stock Company with Limited Liability, which is an A Share listed company, is held as to 77.35% by China National Petroleum Corporation. Each of CNPC Capital Company Limited, CNPC Capital Joint Stock Company with Limited Liability and China National Petroleum Corporation is therefore deemed to be interested in all of the shares of the Company held by CNPC Assets Management.
- (6) Jinan Finance Holding Group Co., Ltd. is wholly owned by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government and State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government is therefore deemed to be interested in all of the shares of the Company held by Jinan Finance Holding Group Co., Ltd.
- (7) To the knowledge of the Company, the number of shares reflected the interests of Jinan Finance Holding Group Co., Ltd. and State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government as at 31 December 2017, but the number of relevant shares were not reported through the application form filled by Jinan Finance Holding Group Co., Ltd. and State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government as the updated amount of their interests did not constitute reporting pursuant to the Securities and Futures Ordinance.
- (8) Qingdao Global Wealth Center Development and Construction Co., Ltd. is wholly owned by Qingdao Laoshan District Finance Bureau and Qingdao Laoshan District Finance Bureau is therefore deemed to be interested in all of the shares of the Company held by Qingdao Global Wealth Center Development and Construction Co., Ltd.
- (9) China Asset Management Co., Ltd. is the investment manager of Industrial and Commercial Bank of China Limited, and is therefore deemed to be interested in all of the shares of the Company held by Industrial and Commercial Bank of China Limited.
- (10) Dingxin Company Limited is wholly owned by Honesty Global Holdings Limited and Honesty Global Holdings Limited is wholly owned by TMF (Cayman) Ltd. Honesty Global Holdings Limited and TMF (Cayman) Ltd. are therefore deemed to be interested in all of the shares of the Company held by Dingxin Company Limited.
- (11) TMF (Cayman) Ltd., being the trustee of Ou Family Trust, holds 51,315,000 shares of the Company through Honesty Global Holdings Limited and Dingxin Company Limited, being its wholly-owned subsidiaries. Each of Mr. Ou Guofei, the founder of Ou Family Trust, Mr. Ou Zonghong, the beneficiary of Ou Family Trust and Ms. Xu Lixiang, the spouse of Mr. Ou Zonghong, are deemed to be interested in all of the shares of the Company held by the trust assets of Ou Family Trust.

Details of Substantial Shareholders Disclosure Required by CBRC

For information on substantial shareholders disclosed as required by the CBRC, please refer to "Information on Substantial Shareholders Disclosure Required by CBRC" of the section headed "Additional Information Disclosure Required by CBRC".

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

PROFILE

Directors

Name	Age	Gender	Date of Joining/Rejoining		Date of Appointment		Roles and Responsibilities	Name of shareholders nominated
			Our Company	Position	for the session	Tenure		
Wang Yingli (王映黎)	56	Female	December 1992	Chairperson of the Board and executive Director	19 August 2016	3 years	Overall management of the Company's business strategies, corporate governance and operations	Lucion Group
Xiao Hua (肖 華)	52	Male	June 2017	Vice Chairperson of the Board and non-executive Director	31 July 2017	3 years	Providing strategic advice and making recommendations on the operations and management of the Company, and assisting the Chairperson in the Board affairs	CNPC Assets Management
Wan Zhong (萬眾)	44	Male	From July 1996 to June 2012 and rejoined in March 2016	Executive Director	5 July 2016	3 years	Day-to-day management and operations of the Company	N/A
Jin Tongshui (金同水)	53	Male	From July 1998 to June 1995, from June 2000 to December 2011 and rejoined in August 2012	Non-executive Director	10 July 2015	3 years	Providing strategic advice and making recommendations on the operations and management of the Company	Lucion Group
Yen Huai-chiang (顏懷江)	45	Male	May 2015	Independent non-executive Director	24 November 2015	3 years	Providing independent advice on the operations and management of the Company	N/A
Ding Huiping (丁慧平)	61	Male	May 2015	Independent non-executive Director	1 September 2015	3 years	Providing independent advice on the operations and management of the Company	N/A
Meng Rujing (孟茹靜)	40	Female	June 2016	Independent non-executive Director	6 September 2016	3 years	Providing independent advice on the operations and management of the Company	N/A

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of Executive Directors



Wang Yingli (王映黎) Chairman of the Board, Executive Director

Ms. Wang Yingli (王映黎), aged 56, was approved to serve as executive Director of the Company and the Chairperson on 24 July 2014 and 19 August 2016 by the Shandong Office of CBRC, respectively. Ms. Wang has approximately 25 years of experience in the trust industry. She joined the Company in December 1992 and has served various positions since then, including the manager of the infrastructure funds department, vice general manager and the General Manager of the Company, and served as General Manager until March 2016. She has been the general secretary to the Party Committee of the Company since August 2013. She is currently a member of the communist party committee of Lucion Group. Ms. Wang has been serving as a non-executive director and the vice-chairperson of the board of directors of Huadian Power International Corporation Limited (華電國際電力股份有限公司) (listed Company of Hong Kong Stock Exchange (stock code: 1071) and listed Company of Shanghai Stock Exchange (stock code: 60027)) since April 2003 and May 2014, respectively. She was accredited as a senior engineer by the Engineering and Technical Profession Senior Appraisal Committee of Shandong Province (山東省工程技術職務高級評審委員會). She was granted qualifications in futures trading by China Futures Association and securities practitioner by Securities Association of China. Ms. Wang graduated from the Department of Electronics of Shandong University in the PRC and also obtained her master's degree in business administration from Nanyang Technological University in Singapore.



Wan Zhong (萬眾) Executive Director

Mr. Wan Zhong (萬眾), aged 44, was appointed as an executive Director of the Company on 5 July 2016. He was appointed by the Board as the General Manager of the Company on 30 March 2016. Mr. Wan is currently the vice general secretary to the Party Committee. Mr. Wan has over 21 years of experience in the trust and investment industries. He joined the Company in July 1996 and has served various positions in the Company since then, including the manager of different departments (infrastructure funds and trust business development related departments) and the vice general manager of the Company. He served as a director of Lucion Venture Capital Group Co., Ltd. (listed company of Shanghai Stock Exchange (stock code: 600783)) from May 2016 to January 2017. Mr. Wan has been serving as the chairperson of First-Trust Fund Management Co., Ltd. since July 2017. Mr. Wan was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東省經濟專業職務高級評審委員會). He graduated from Shandong Economics Academy (山東經濟學院) in the PRC with a bachelor's degree in international trade and obtained his master's degree in management from Tianjin Finance Academy (天津財經學院) in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of Non-executive Directors



Xiao Hua (肖華) Deputy Chairman of the Board, Non-executive Director

Mr. Xiao Hua (肖華), aged 52, was the Company's Vice-Chairperson of the Board and a non-executive Director as approved by Shandong Office of CBRC on 31 July 2017. Mr. Xiao has served as executive director, secretary of the party committee, and the chairman of the union of CNPC Assets Management, one of the major shareholders of the Company, the chairman, executive director and the secretary of the party committee and the chairman of the union of Kulun Trust since July 2017. Mr. Xiao has approximately 30 years of experience in accounting and management in several subsidiaries of China National Petroleum Corporation. Mr. Xiao had worked in Liaoyang Petrochemical Fiber Company (遼陽石油化纖公司) for around 14 years, and served various positions. Mr. Xiao worked in Eastern China Chemical Sales Branch (華東化工銷售分公司) of China National Petroleum Corporation for around 15 years and served various positions, including the deputy general manager, general manager, the general secretary to the Party Committee, and the chairman of the labour union. Mr. Xiao was accredited as a senior economist (professor level) by China National Petroleum Corporation. Mr. Xiao obtained a bachelor's degree in accounting from Shenyang University of Technology (瀋陽工業大學) in the PRC and a master's degree in executive business administration from Fudan University (復旦大學) in the PRC.



Jin Tongshui (金同水) Non-executive Director

Mr. Jin Tongshui (金同水), aged 53, was appointed as a non-executive Director of the Company on 21 August 2012. Mr. Jin has over 29 years of experience in the financial industry. From July 1988 to June 1995 and from June 2000 to December 2011, he served various positions in the Company, including the project manager as well as the manager of the finance department and the risk management department of the Company. Apart from his positions in the Company, Mr. Jin also served various positions in other companies engaged in financial and investment activities. From July 1995 to May 2000, he was the finance manager of China Shandong Investment Limited (魯信投資有限公司), a company incorporated in Hong Kong. From January 2012 to December 2014, he served several positions in Lucion Group, including the department chief of its department of property rights management and the department chief of its investment and development department. He also served as the director of Minsheng Securities Co., Ltd. (民生證券股份有限公司), a company principally engaged in securities brokerage and securities investment consulting services, from December 2014 to July 2016. Since December 2014, he has been the chairperson of the board of directors of Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司) He was certified as an accountant by the Ministry of Finance. Mr. Jin graduated from the Department of Finance of Shandong Economics Academy in the PRC, and obtained a bachelor's degree in accounting jointly issued by Beijing Technology and Business University (中國北京工商大學) and China Central Radio and TV Virtual University (中央廣播電視大學) (now known as the Open University of China (國家開放大學)) in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of Independent Non-executive Directors



Yen Huai-chiang (顏懷江) Independent Non-executive Director

Mr. Yen Huai-chiang (顏懷江), aged 45, was appointed as an independent non-executive Director of the Company on 24 November 2015. Mr. Yen has over 11 years of experience in the financial investment and asset management industries. He served as an associate director as well as a client advisor in the Wealth Management, Personal and Corporate Division of Taipei and Taichung branches of UBS AG, and an associate director of UBS Securities Co. Limited, where he was primarily responsible for wealth management affairs. He is the founder and the executive director of Panhe Family Office (磐合家族辦公室), an institute principally engaged in family wealth management. He was a special lecturer of the Certified Private Banker program and the Certified Financial Planner Certification Education Program. Mr. Yen has been a Certified Financial Planner professional conferred by the Financial Planning Standards Board (國際金融理財標準委員會) since April 2009. He obtained a degree of master of science in finance from Golden Gate University in the United States and is currently pursuing his doctoral degree in finance in Jinan University (暨南大學) in the PRC.



Ding Huiping (丁慧平) Independent Non-executive Director

Mr. Ding Huiping (丁慧平), aged 61, was appointed as an independent non-executive Director of the Company on 1 September 2015. Mr. Ding has more than 13 years of experience working as an independent non-executive director and a member/chairperson of the audit committee of listed companies in the PRC and Hong Kong. He has been serving in the School of Economics and Management in Beijing Jiaotong University since December 1993 and became a professor and a doctoral supervisor in accounting. He has been serving as the head of the Research Center of China Enterprise Competitiveness since July 2007. Mr. Ding currently serves as an independent director of Metro Land Corporation Ltd. (listed company of Shanghai Stock Exchange (stock code: 600683)) and an independent non-executive director of Huadian Power International Corporation Limited (listed company of Hong Kong Stock Exchange (stock code: 1071) and listed company of Shanghai Stock Exchange (stock code: 600027)). He has served as an independent director of China Merchants Securities Co., Ltd. (listed company of Shanghai Stock Exchange (stock code: 600999)). He has also been serving as an external supervisor of China Merchants Bank Co., Ltd. (listed company of Stock Exchange (stock code: 3968) and listed company of Shanghai Stock Exchange (stock code: 600036)) since June 2016. Mr. Ding obtained his bachelor's degree in engineering from Northeastern University (中國東北大學) in the PRC, and obtained his associate doctoral degree in production economics and a doctoral degree in production economics from Linkoping University in Sweden.



Meng Rujing (孟茹靜) Independent Non-executive Director

Ms. Meng Rujing (孟茹靜), aged 40, was appointed as an independent non-executive Director of the Company on 6 September 2016. Ms. Meng has over 13 years of research and teaching experience in the financial industry and her research areas mainly focuses on including capital markets and investments, real options, corporate finance and risk management. She is a principal lecturer in the Faculty of Business and Economics and a director of the Master of Finance Programme in The University of Hong Kong. Ms. Meng has received a number of teaching awards, including the International MBA Teaching Award jointly granted by The University of Hong Kong and Fudan University in 2014 as well as the Teaching Awards and the Outstanding Teacher Awards granted by the Faculty of Business and Economics of The University of Hong Kong in 2006 and 2012, respectively. Ms. Meng majored in finance and obtained her bachelor's degree in management from Guanghua School of Management of Peking University in the PRC and obtained her degree of Ph.D. in finance from Fuqua School of Business in Duke University in the United States.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Name	Age	Gender	Date of Joining/Rejoining our Company	Position	Date of Appointment for the session	Tenure	Roles and Responsibilities	Name of shareholders nominated
Yang Gongmin (楊公民)	60	Male	From January 2001 to March 2004 and rejoined in March 2010	Chairperson of the board of Supervisors	4 May 2016	3 years	Supervising the performance of duties by the Directors and senior management	Shandong High-Tech Venture Capital Co., Ltd.
Hou Zhenkai (侯振凱)	36	Male	May 2016	Supervisor	4 May 2016	3 years	Supervising the performance of duties by the Directors and senior management	Lucion Group
Chen Yong (陳勇)	44	Male	September 2014	Supervisor	10 July 2015	3 years	Supervising the performance of duties by the Directors and senior management	CNPC Assets Management
Wu Chen (吳晨)	43	Male	May 2015	Supervisor	10 July 2015	3 years	Supervising the performance of duties by the Directors and senior management	Shandong Gold Group Co., Ltd.
Wang Yuepu (王日普)	55	Male	August 2012	Supervisor	21 July 2016	3 years	Supervising the performance of duties by the Directors and senior management	Weifang Investment Group Co., Ltd.
Guan Wei (官偉)	41	Male	June 2017	Supervisor	8 June 2017	3 years	Supervising the performance of duties by the Directors and senior management	Jinan Energy Investment Co., Ltd.
Tian Zhiguo (田志國)	45	Male	May 2005	Supervisor	10 July 2015	3 years	Supervising the performance of duties by the Directors and senior management	N/A
Zuo Hui (左輝)	47	Male	December 1996	Supervisor	10 July 2015	3 years	Supervising the performance of duties by the Directors and senior management	N/A
Li Aiping (李愛萍)	46	Female	April 2015	Supervisor	10 July 2015	3 years	Supervising the performance of duties by the Directors and senior management	N/A

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of Supervisors



Yang Gongmin (楊公民) Chairperson of the board of Supervisors

Mr. Yang Gongmin (楊公民), aged 60, was appointed as the chairperson of the board of Supervisors on 4 May 2016 and has been serving as our Supervisor since 25 March 2010. He has over 16 years of experience in the financial and investment industries. He served as a manager in the research and development department of the Company. He also served as the manager of the investment management department of Lucion Group, where he was primarily responsible for overseeing the investment affairs of the company. He has been serving as the chairperson of the board of supervisors of Lucion Venture Capital Group Co., Ltd. (listed company of Shanghai Stock Exchange (stock code: 600783)) since April 2016 and two other subsidiaries of Lucion Group since August 2016. Mr. Yang graduated from Shandong University in the PRC (中國山東大學) with a bachelor's degree in economics, and obtained his master's degree in senior management business administration from Nankai University in the PRC (中國南開大學) in December 2005.



Hou Zhenkai (侯振凱) Supervisor

Mr. Hou Zhenkai (侯振凱), aged 36, was appointed as a Supervisor on 4 May 2016. He has over nine years of experience in the legal and compliance area. Before joining the Company, he was a lawyer in the Qingdao office of King & Wood Mallesons, a law firm in the PRC. He has been serving in the risk and compliance department of Lucion Group since January 2013 and has been serving as the deputy department chief since March 2016, where he was primarily responsible for the legal affairs of the company. He has also been serving as the supervisor of Shandong Zhonglu Oceanic Fishery Company Limited (山東省中魯遠洋漁業股份有限公司), (listed company of Shenzhen Stock Exchange (stock code: 200992)), since May 2016. Mr. Hou was qualified to trade in securities by Securities Association of China and to trade in funds by Asset Management Association of China. Mr. Hou graduated from Jilin University in the PRC with a bachelor's degree in law and obtained his master's degree in civil and commercial law from Shandong University in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Chen Yong (陳勇) Supervisor

Mr. Chen Yong (陳勇), aged 44, was appointed as a Supervisor on 26 September 2014. He has over 18 years of experience in the financial industry. Prior to joining our Company, Mr. Chen served in different departments in China National Petroleum Xinjiang Sales Company (中國石油新疆銷售公司), including the general office and the finance and audit department of the company. He then served as the deputy division chief of the finance division and the division chief of the corporate management division of China National Petroleum Xinjiang Sales Company. He has been serving as the general manager of the equity investment department of Kunlun Trust since September 2010 and the division chief of CNPC Assets Management since February 2011, in which positions, he is primarily responsible for the day-to-day management of the equity investment affairs of the companies. Mr. Chen was accredited as a senior accountant by China National Petroleum Corporation. He graduated from Xinjiang University (中國新疆大學) in the PRC with a bachelor's degree in computer application and obtained his master's degree in business administration from Xinjiang University of Finance and Economics (中國新疆財經大學) in the PRC.



Wu Chen (吳晨) Supervisor

Mr. Wu Chen (吳晨), aged 43, was appointed as a Supervisor on 29 May 2015. He has over 17 years of experience in the financial industry. Mr. Wu served in the PBOC Jinan Branch, including as its deputy chief clerk. He also served various positions in the Shandong Office of CBRC, including as the section chief, the deputy division chief and the supervisory research analyst, consecutively. He has been serving as the general manager and the director of Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司) since July 2013. Mr. Wu was accredited as a senior economist by the Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳). He is a project investment evaluation expert of the Council of Social Security Fund of Shandong Province (山東省社會保障基金理事會). Mr. Wu graduated from Shandong University in the PRC with a bachelor's degree in international economics. He also obtained his master's degree in political science and economics from Shandong University in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Wang Yuepu (王曰普) Supervisor

Mr. Wang Yuepu (王曰普), aged 55, was appointed as a Supervisor on 21 July 2016. He has over 17 years of experience in the financial and investment industries. He served as a non-executive Director of the Company from August 2012 to July 2016. From July 1982 to February 2000, he served various positions as a government officer in Weifang City, Shandong Province, including the deputy section chief and the section chief of the Planning Committee of Weifang City. He was the deputy director in the Electricity Construction Office of Weifang City from February 2000 to September 2004. He served as a director of Chtc Helon Co., Ltd. (恒天海龍股份有限公司) (listed company of Shenzhen Stock Exchange (stock code: 000677)) from 15 August 2013 to 24 August 2015. He served as a member of the party committee of Weifang Investment Group Co., Ltd., and served as the secretary of the party committee of the Company from September 2004 to March 2014. He has been the general manager and the chairperson of the board of directors of Weifang Investment Group Co., Ltd. (濰坊投資集團有限公司) since December 2011 and since March 2014, respectively. He has been serving as a non-executive director of Weichai Power Co., Ltd. (濰柴動力股份有限公司) (listed company of Shenzhen Stock Exchange (stock code: 000338) and listed company of Stock Exchange (stock code: 2338)) since 30 June 2014 and has been serving as a director of Weichai Heavy Machinery Co., Ltd. (濰柴重機股份有限公司) (listed company of Shenzhen Stock Exchange (stock code: 000880)) since 29 April 2012. Mr. Wang was accredited as a senior economist by Shandong Economic Professional Accreditation Senior Appraisal Committee. He graduated from the Correspondence College of the Party School of the Central Committee of the Communist Party of China in the PRC, where he majored in economics administration. He obtained his master's degree in business administration from Nankai University (南開大學) in the PRC.



Guan Wei (官偉) Supervisor

Mr. Guan Wei (官偉), aged 41, was appointed as a Supervisor on 8 June 2017. Mr. Guan has been serving as the deputy general manager of Jinan Energy Investment Co., Ltd., a company principally engaged in the investment and assets management businesses, since August 2016. Mr. Guan has also been the deputy general manager of Jinan Economics and Trading Industrial Investment Corporation (濟南經貿實業投資總公司), since December 2012. Mr. Guan has over 19 years of experience in engineering. Mr. Guan joined Jinan Energy Investment Co., Ltd. in July 1998, and has served in various positions since then, including an engineer and the director of general office. Mr. Guan also worked as the assistant to the general manager in Jinan Jihua Mansion Operation and Management Co., Ltd. (濟南吉華大廈運營管理有限公司) from November 2009 to December 2012. Mr. Guan was accredited as an engineer by Jinan Engineering and Technology Service Intermediate Review Committee (濟南市工程技術服務中級評審委員會). Mr. Guan was awarded a third-class merit by the Jinan mutriciple government and was honored as the "advanced individual" in November 2009. Mr. Guan graduated from Xi'an Jiaotong University (西安交通大學) in the PRC majoring in thermal engineering, and obtained a bachelor's degree in accounting from Shandong Finance College (山東財政學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC. Mr. Guan graduated from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC with a master's degree majoring in business administration.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Tian Zhiguo (田志國) Supervisor

Mr. Tian Zhiguo (田志國), aged 45, was appointed as a Supervisor on 30 December 2011. He has over 12 years of experience in the financial and trust industries. He joined our Company in July 2005 and served several positions in the Company since then, including the vice general manager of the fifth division of trust and the general manager of the fifth division of trust. Prior to joining the Company, Mr. Tian worked in the Electronic Economic Trading Center of Shandong Province (山東省電子經濟貿易中心). He graduated from Shandong University in the PRC with a master's degree in law.



Zuo Hui (左輝) Supervisor

Mr. Zuo Hui (左輝), aged 47, was appointed as a Supervisor on 30 April 2015. He has over 20 years of experience in the legal and compliance area of the financial industry. Since he joined the Company in December 1996, Mr. Zuo served various positions, including the deputy manager of the compliance and legal department. Before joining the Company, he was an in-house counsel in the Shandong Film and Television Legal Department (山東省影視律師事務所). Mr. Zuo graduated from Beijing Union University (北京聯合大學) in the PRC with a bachelor's degree in law. He obtained his master's degree in law from China University of Political Science and Law (中國政法大學) in the PRC.



Li Aiping (李愛萍) Supervisor

Ms. Li Aiping (李愛萍), aged 46, was appointed as a Supervisor on 30 April 2015. Ms. Li is currently the deputy office manager of the Party Committee and the discipline inspection committee of the Company. She has over 12 years of experience in human resources management. She has been the deputy chief to the communist Party Committee and disciplinary committee of our Company since May 2015. Prior to joining our Company, she worked in the 26th group army of the Jinan Military Region in the PRC, and was also an officer in the Job Transferring Office of the Political Department of Military Region in Shandong Province (山東省軍區政治部轉業辦). She worked at the human resources department of Lucion Group. She holds a certification of senior human resources professional granted by the Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in August 2008. Ms. Li graduated from the department of industrial and commercial department of Shandong Economics Academy in the PRC, majoring in trade economics and also obtained a bachelor's degree in law from Jinan Army Academy (濟南陸軍學院) in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior management

Name	Age	Gender	Date of Joining/ Rejoining Our Company	Position	Date of Appointment	Roles and Responsibilities
Wan Zhong (萬眾)	44	Male	From July 1996 to June 2012 and rejoined in March 2016	General Manager	15 July 2016	Day-to-day overall management and operations of our Company
Zhou Jianqu (周建堯)	45	Female	January 1999	Vice General Manager	26 October 2011	Assisting the General Manager with the day-to-day management of the business operations of our Company
He Chuangye (賀創業)	42	Male	October 2015	Vice General Manager, secretary to the Board and Joint Company Secretary	7 April 2016	Compliance affairs, research and development and international business
Ma Wenbo (馬文波)	45	Male	November 2013	Chief Financial Officer	24 July 2014	Financial and accounting, proprietary business and related matters of our Company
Fu Jiguang (付吉廣)	49	Male	May 2001	Chief Risk Management Officer	27 July 2016	Compliance and risk management, audit and other matters of the operations and investment of our Company

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of senior management

Wan Zhong (萬眾) General Manager

Mr. Wan Zhong (萬眾), is the General Manager of our Company, primarily responsible for the day-to-day overall management and operations of our Company, and was appointed on 15 July 2016. Please see “Biography of Executive Directors” for his biography.



Zhou Jianqu (周建堯) Vice General Manager

Ms. Zhou Jianqu (周建堯), aged 45, is the Vice General Manager of our Company and was appointed on 26 October 2011. Ms. Zhou has been the chairperson of Zhongyue Capital Management Co., Ltd. (中閱資本管理股份公司) since its establishment in March 2017. Ms. Zhou has over 18 years of experience in the financial and trust industries. She joined our Company in January 1999 and served several positions in different departments of our Company since then. She served in the securities department and then in the trust investment banking department of our Company, consecutively. She then served as the project manager, the operation manager, the deputy manager and the manager in the fund trust department of our Company. She served as the manager in the fifth division of trust in our Company. Prior to joining our Company, she served in Jinan Kuaixin Industrial Group Company Limited (濟南快信實業集團公司), a company principally engaged in the development and sales of high-tech products. She also served in Shandong Enterprise Property Right Exchange (山東企業產權交易所). Ms. Zhou was accredited as an intermediate economist by the Ministry of Human Resources of the PRC. She was granted qualifications to trade in securities by Securities Association of China, to trade in funds by Asset Management Association of China and to trade in futures by China Futures Association. Ms. Zhou has been a member of the Finance and Economics Committee of the 18th People’s Congress of Lixia District, Jinan (濟南市歷下區第十八屆人民代表大會財政經濟委員會) since February 2017. Ms. Zhou studied in the department of mechanical engineering and obtained her bachelor’s degree in engineering from Beijing Light Industry Academy (北京輕工業學院) in the PRC. She obtained her master’s degree in business administration from Shandong Economics Academy in the PRC.



He Chuangye (賀創業) Vice General Manager, the secretary to the Board and one of the joint company secretaries

Mr. He Chuangye (賀創業), aged 42, is the Vice General Manager of our Company, the secretary to the Board, a member of the Party Committee and one of our joint company secretaries. He was appointed as the Vice General Manager and the secretary to the Board on 7 April 2016 and 27 July 2016, respectively. Mr. He has over 18 years of experience in the financial industry. Prior to joining our Company, Mr. He served several positions in the financial supervisory institutions in China, including a clerk in the PBOC Jinan Branch. He then served various positions consecutively in the Shandong Office of CBRC, including the clerk, the deputy chief clerk, the chief clerk, the section chief, the deputy director of the general office and the deputy division chief in its Non-banking Financial Institution Regulatory Division (非銀行金融機構監管處). He also served a temporary post as the deputy chief secretary of Yantai City Government. Mr. He was granted the certificate of intermediate economist by the Ministry of Personnel of the PRC. Mr. He graduated from the University of Hong Kong in Hong Kong with a master’s degree in finance.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Ma Wenbo (馬文波) Chief Financial Officer

Mr. Ma Wenbo (馬文波), aged 45, is the Chief Financial Officer of our Company approved to serve in this position by Shandong Office of CBRC on 24 July 2014. He is primarily responsible for financial and accounting related matters of our Company. Mr. Ma has over 20 years of experience in accounting. He was approved to serve as our Chief Financial Officer by the Board in November 2013. Prior to these positions, he gained extensive experience in accounting from his various positions with other companies. He served in China National Electronics Import and Export Shandong Co. Ltd. (中國電子進出口山東公司), primarily responsible for the accounting matters of the company. He then served as the manager of the finance department in Shandong Today's Coffee Company Limited (山東今日咖啡有限公司). He served in Shandong Lucion Industrial Co., Ltd. and Lucion Group, consecutively, primarily responsible for the accounting matters of the companies. He has been serving as a director in Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司) since April 2015. Mr. Ma served as a director in Jinding Leasing Co., Ltd. (金鼎租賃有限公司). Mr. Ma was accredited as a senior accountant by the Senior Review Committee of Accounting Professional Qualifications of Shandong Province (山東省會計專業資格高級評審委員會) and has been a PRC certified public accountant accredited by the Association of Certified Public Accountants of Shandong Province (山東省註冊會計師協會). Mr. Ma graduated from Shandong Finance Academy (山東財政學院) in the PRC with a bachelor's degree in accounting.



Fu Jiguang (付吉廣) Chief Risk Management Officer

Mr. Fu Jiguang (付吉廣), aged 49, was appointed as the Chief Risk Management Officer of our Company on 27 July 2016. He has over 25 years of experience in the trust and financial industries. He joined our Company in May 2001 and served various positions in, including the operation manager of the investment banking operations department, the deputy manager of the investment banking department and the manager of the audit and legal department of our Company. Mr. Fu served as the chief financial officer of Shandong Zhonglu Oceanic Fisheris Co., Ltd. (listed company of Shenzhen Stock Exchange (stock code: 200992)) on secondment. He served as the manager of the fourth division of trust. Before joining our Company, he served in the investment department of Jining Trust Investment Company Limited (濟寧市信託投資公司), a company principally engaged in trust investment and management. He also served as the director and the vice general manager of Jining Liuzhuang Port Transportation Company Limited (濟寧市留莊港運輸總公司), where he was primarily responsible for the day-to-day management of the company. He was the director of Jinan Luban Bairong Properties Company Limited (濟南魯班百融置業有限公司) and has been serving as the director of Qihe County Jiqi Yellow River Bridge Management Company Limited (齊河縣濟齊黃河大橋經營管理有限公司). Mr. Fu was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東經濟專業職務高級評審委員會) in October 2002. He obtained his bachelor's degree in industrial economics and his master's degree in corporate management from Shandong Economics Academy in the PRC.

None of our Directors, Supervisors and senior management is personally related (including financial, business, family or other material relevant relationships) to any of other Directors, Supervisors or senior management. None of the Directors, Supervisors and senior management has been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules, and no other matters are required to be disclosed under Rule 13.51(2) of Listing Rules.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, the changes in Directors, Supervisors and Senior Management of the Company are as follows:

Changes of Directors

The Company held the 2017 second extraordinary general meeting on 8 June 2017, at which the “Resolution on Changes of Directors of the Company of Shandong International Trust Co., Ltd.” was considered and approved, and Mr. Xiao Hua was elected as a Director of the Company and the qualification of Mr. Xiao Hua is subject to the approval of Shandong Office of CBRC according to the relevant requirements; and the cessation of Mr. Wang Liang as a Director of the Company was approved.

The Company held the 15th meeting of the first session of the Board on 8 June 2017, at which the “Resolution on Election of the Vice-Chairperson of the Board of the Company” was considered and passed, and the appointment of Mr. Xiao Hua as the Vice-Chairperson of the first session of Board of the Company was approved. The qualification of Mr. Xiao Hua is subject to the approval of Shandong Office of CBRC in accordance with the relevant requirements.

Shandong Office of CBRC verified the eligibility of Mr. Xiao Hua on 31 July 2017.

The Company held the 18th meeting of the first session of the Board on 3 August 2017, at which the “Resolution on Change of Committee Members of the Strategies and Risk Management Committee under the Board” was considered and passed, and the appointment of Mr. Xiao Hua as a committee member of the Strategies and Risk Management Committee under the Board was approved.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes of Supervisors

The Company held the 2017 second extraordinary general meeting on 8 June 2017, at which the “Resolution on Changes of Supervisors of the Company of Shandong International Trust Co., Ltd.” was considered and approved, and Mr. Guan Wei was elected as a Supervisor of the Company; and the cessation of Mr. Ding Jian as a Supervisor of the Company was approved.

Changes of senior management

The Company held the 17th meeting of the first session of the Board on 3 July 2017, at which the “Resolution on Dismissal of Mr. Song Chong as the Vice General Manager of the Company” was considered and passed, and the dismissal of Mr. Song Chong as the Vice General Manager was approved. Matters decided by way of the resolutions shall be reported to regulatory authorities in accordance with the relevant requirements.

Save as disclosed above, there is no other information required to be disclosed under the Rule 13.51B(1) of the Listing Rules.

Annual Remuneration

Please refer to “Emoluments of Directors, Supervisors and the Highest Paid Individuals” as in Note 11 to the consolidated financial statements for details of the remuneration of Directors and Supervisors of the Company.

For the year ended 31 December 2017, we did not pay any remuneration to our non-executive Directors who were nominated by our Shareholders to take up the directors’ position in the Company because these non-executive Directors had been remunerated by our Shareholders directly for their service as our Director, being part of their job responsibilities of their working with our Shareholders.

Save as disclosed in this annual report, no other amounts have been paid or are payable by the Company to our Directors and Supervisors for the year ended 31 December 2017.

No remuneration was paid by the Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as a compensation for loss of office in respect of the year ended 31 December 2017. Furthermore, none of our Directors nor Supervisors waived or agreed to waive any remuneration during the same period.

The Board will review and determine the remuneration and compensation packages of our Directors, Supervisors and senior management, which will receive recommendation from the Remuneration Committee, taking into account salaries paid by comparable companies, their time devoted, experience possessed and responsibilities assumed in the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

During the reporting period, the Company persistently raised the transparency of corporate governance so as to safeguard the interests of the Shareholders and enhance the corporate value.

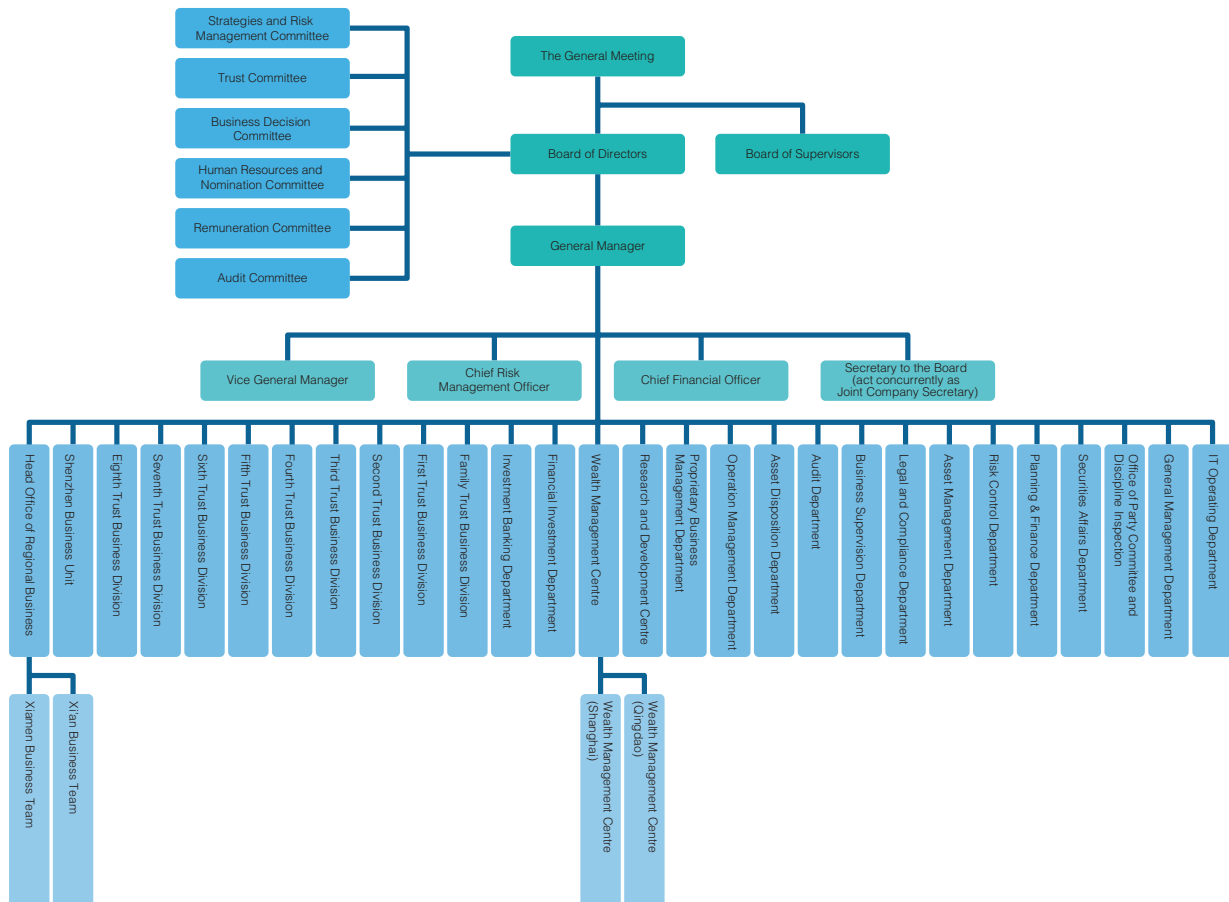
The Company has set up a relatively comprehensive corporate governance structure as required by the Listing Rules. The composition of the Board and the special committees under the Board are in compliance with the requirements of the Listing Rules. The Company clearly classifies the responsibilities among the Shareholders' general meeting, the Board, the Board of Supervisors and senior management. The Shareholders' general meeting acts as the highest authority of the Company and the Board is held accountable to Shareholders. The Board has established six special committees, which operate under the leadership of the Board and provide opinions on the decisions of the Board. The Board of Supervisors oversees the steady and sound operation of the Company and the performance of duties by the Board and senior management. Under the leadership of the Board, the senior management is responsible for implementation of resolutions from the Board and the day-to-day business and management of the Company, as well as periodic reporting to the Board and the Board of Supervisors.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Company's Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own corporate governance code. Save as disclosed in this annual report, the Company has been in compliance with all code provisions as set out in the Corporate Governance Code during the period from the Listing Date 31 December 2017. The Company will continue to review and monitor its corporate governance practices in order to ensure compliance with the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE STRUCTURE



RESPONSIBILITIES OF THE BOARD

The Board undertakes the overall leadership of the Company, oversees the Company's strategic decisions and monitors its business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the senior management of the Company. To oversee particular aspects of the Company's affairs, the Board has established six Board committees, including the audit committee (the "**Audit Committee**"), the business decision committee (the "**Business Decision Committee**"), the human resources and nomination committee (the "**Human Resources and Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**"), the strategies and risk management committee (the "**Strategies and Risk Management Committee**") and the trust committee (the "**Trust Committee**") (collectively, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal actions against its Directors, and will conduct annual review of the scope of such insurance coverage.

CORPORATE GOVERNANCE REPORT

COMPOSITION OF THE BOARD

As at 31 December 2017, the Board comprised seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

The current members of the Board of the Company are listed as follows:

Name	Position
Wang Yingli	Chairperson and Executive Director
Xiao Hua	Vice Chairperson and Non-executive Director
Wan Zhong	Executive Director
Jin Tongshui	Non-executive Director
Yen Huai-chiang	Independent non-executive Director
Ding Huiping	Independent non-executive Director
Meng Rujing	Independent non-executive Director

Biographies of the Directors are set out under the section headed "Details of Directors, Supervisors and Senior Management" of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the period from the Listing Date to 31 December 2017, the Board has complied with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one possessing appropriate professional qualification or accounting or related financial management expertise at any time.

Each of the independent non-executive Directors has confirmed his/her independence during the period from the Listing Date to 31 December 2017 pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

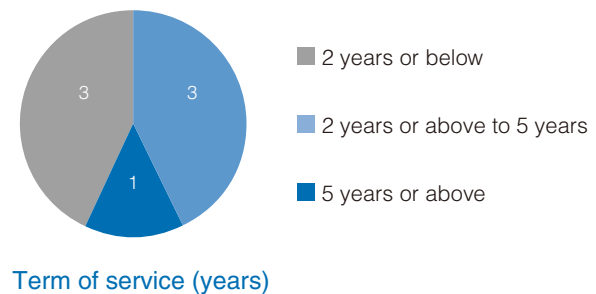
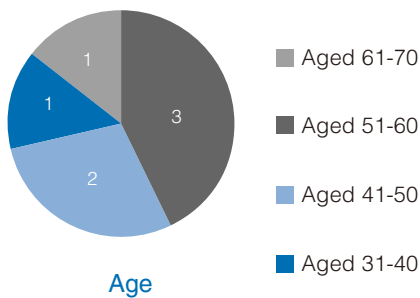
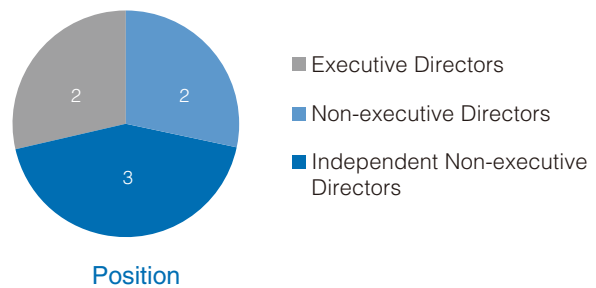
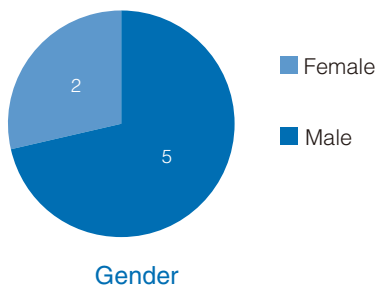
CORPORATE GOVERNANCE REPORT

DIVERSITY OF THE BOARD

The Board remains committed to enhance its operating efficiency and maintain the highest standards of corporate governance on a continuing basis and recognizes the vital importance of the diversity of the Board with regard to the maintenance of competitive advantage and sustainable development. The Board strives to ensure the appropriate balance of skills, experience and diversity of perspectives that are essential for the implementation of its business strategies of the Board and the effective operation of the Board. In designing the composition of the Board, the Company has taken into account the diversity of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service and time to be devoted as a Director of the Company, etc. The Company will consider its own business model and special needs from time to time as well. The ultimate decision will be made based on the contribution and merit that the selected candidates will bring to the Board.

The Human Resources and Nomination Committee of the Company reviews and assesses the composition of the Board and the independence of independent non-executive Directors, and makes recommendations to the Board on appointment of new directors of the Company. In recommending candidates for appointment to the Board, the Human Resources and Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. The composition of the Board will be disclosed in the Corporate Governance Report annually.

As at the date of this annual report, the analysis on the composition of the Board is as follows:



CORPORATE GOVERNANCE REPORT

FUNCTIONS AND POWERS OF THE BOARD OF DIRECTORS

In accordance with the Articles of Association, main functions and powers of the Board of the Company include but not limited to the following:

- (1) to convene general meetings and to report its work to the general meetings;
- (2) to implement the resolutions of the general meetings;
- (3) to decide on the operation plans and investment plans of the Company;
- (4) to formulate the annual financial budgets and final accounts of the Company;
- (5) to formulate the profit distribution plans and loss recovery plans of the Company;
- (6) to formulate proposals for the increase or reduction of the registered capital of the Company;
- (7) to prepare proposals for the material acquisition, repurchase of the shares of the Company or merger, division, dissolution or change of corporate form of the Company;
- (8) to formulate proposals for the issuance of corporate bonds, any types of shares, warrants or other marketable securities and listing;
- (9) to decide on the establishment of internal management departments of the Company and the establishment or revocation of the branches and other sub-branches of the Company;
- (10) to elect the chairperson and vice chairperson of the Board of the Company;
- (11) to appoint or dismiss the general manager of the Company and secretary to the Board pursuant to the nominations by the chairperson of the Board of the Company; to appoint or dismiss vice general manager, chief financial officer and other senior management members of the Company pursuant to the nominations by the general manager and to decide on their remunerations, incentives and punishments;
- (12) to formulate the basic management system of the Company and terms of reference of all special committees under the Board;

CORPORATE GOVERNANCE REPORT

- (13) to prepare proposals for amendments to the Articles of Association, Procedural Rules for the Shareholders' General Meeting and Procedural Rules for the Board;
- (14) to formulate the share incentive schemes of the Company;
- (15) to manage the matters in relation to the information disclosure of the Company;
- (16) to decide on the establishment of special committees and to elect their members;
- (17) to decide on the risk management system of the Company which covers risk assessments, financial control, internal audit and legal risk control and monitor its implementation;
- (18) to propose the appointment or replacement of the accounting firm that provides the Company with auditing services for annual financial statements to the general meeting, and decide on its audit fees;
- (19) to listen to the regular or non-regular work reports from the general manager of the Company or the senior management members of the Company appointed by the general manager, and to approve the work reports of the general manager;
- (20) to consider and approve the major financial accounting policies and changes to accounting estimates;
- (21) to decide on the staffing arrangement, proposals on remuneration and performance appraisal of the senior management members;
- (22) to consider the material equity investments, bond investments, acquisition of assets, disposal of assets, write off of assets and external guarantee and other transaction matters in the proprietary business except for those which shall be approved by the general meetings in accordance with the Articles of Association;
- (23) to consider the material related party transactions which shall be approved by the Board pursuant to laws, regulations and listing rules of the place where the securities of the Company are listed; and
- (24) to exercise other functions and powers conferred by laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, the general meetings and the Articles of Association.

The Board of the Company shall provide explanations to the general meeting in respect of the auditors' report with a qualified opinion issued by the certified public accountants regarding the financial statements of the Company.

CORPORATE GOVERNANCE REPORT

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors are provided with necessary induction training and information to ensure that he/she has a proper understanding of the Company's operations and business as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also periodically arranges seminars for Directors and provides them with updates on latest development and amendments in the Listing Rules and other relevant legal and regulatory requirements from time to time. Also, Directors are provided with regular updates on the performance, position and prospects of the Company to enable the Board as a whole and each Director to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Joint Company Secretaries of the Company update and provide written training materials in respect of the roles, functions and responsibilities of Directors from time to time.

A summary of training received by Directors for the year ended 31 December 2017 according to the records provided by the Directors is as follows:

Name of Director	Nature of Programme of Continuous Professional Development
Executive Directors	
Wang Yingli	C D
Wan Zhong	C D
Non-executive Directors	
Xiao Hua	C D
Jin Tongshui	C D
Independent Non-executive Directors	
Yen Huai-chiang	A B C D
Ding Huiping	C D
Meng Rujing	A B C D

Notes:

- A: attending seminars and/or meetings and/or forums and/or briefings
- B: giving speeches at seminars and/or meetings and/or forums
- C: attending trainings provided by law firms or trainings related to the Company's business
- D: reading materials on different topics, including corporate governance, responsibilities of directors, amendments to the Listing Rules and other relevant laws

CORPORATE GOVERNANCE REPORT

Chairperson and General Manager

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairperson of the Board and General manager should be separated and served by different individuals.

The positions of chairperson of the Board of the Company and general manager of the Company are currently held by Ms. Wang Yingli and Mr. Wan Zhong, respectively. The two different positions are clearly defined by functions. The chairperson of the Board is responsible for providing strategic advice and guidance on the Company's development, while the general manager is responsible for the daily operation of the Company.

Appointment and Re-election of Directors

In accordance with the requirements of the Articles of Association, the Directors of the Company are elected at the general meeting by way of ordinary resolutions. The Directors' term of office is three years, and Directors are eligible for re-election upon expiry of the term.

The nomination method and the election procedures for Directors are as follows:

- (1) a candidate for the position of Director shall be nominated by way of putting forward a proposal by the Board or the Shareholders individually or jointly holding 5% or more of the total number of shares carrying voting rights issued by the Company, and the basic information, biographies and other written materials shall be attached thereto;
- (2) for candidates nominated by the Board, the Human Resources and Nomination Committee of the Board shall conduct preliminary review on the qualifications for such positions and conditions of the candidates for the position of Director, and propose competent candidates to the Board for consideration; upon consideration and approval by the Board, the candidates for the position of Director shall be proposed to the general meeting by way of written proposal;
- (3) the candidates for the position of Director shall make written commitments before the convening of general meeting that they agree to accept the nomination, undertake that the information publicly disclosed is true and complete, and warrant to fulfill the duties of Directors with due diligence once elected; The written notice of intention to nominate a person for the position of Director and the written notice by such person of his/her willingness to accept the nomination and relevant written materials with information of the nominee, shall be sent to the Company at least ten days prior to the convening of the general meeting;
- (4) the Company shall, before convening the general meeting, disclose detailed information of the candidates for the position of Director to Shareholders according to laws, regulations and the Articles of Association in order to ensure that Shareholders could have sufficient knowledge of the candidates when casting their votes;
- (5) the Company shall give at least seven days for relevant nominators and candidates for the post of Director for submission of the notice and materials set forth as above (such period shall be calculated from the day following the issue date of the notice of general meeting); and
- (6) the general meeting shall vote on the proposals on each candidate one by one.

CORPORATE GOVERNANCE REPORT

Before the expiry of the term of office, a Director shall not be dismissed by the general meeting without valid reasons. Where a Director has not been timely re-elected at the expiry of the term of office, or where a Director has resigned during the term of office resulting that the number of the members in the Board falls below the quorum, the original Director shall still perform his/her duties as a Director, prior to the assumption of office by the re-elected Director, in accordance with laws and regulations as well as the provisions of the Articles of Association.

The term of office of independent Directors is three years and they are eligible for re-election upon expiry of the term, but the term for re-election shall be no more than 6 years. Before the expiry of the term of office, an independent Director shall not be dismissed by the general meeting without any particular reasons.

Each of the executive Directors, non-executive Directors, Independent non-executive Directors and Supervisors of the Board has entered into a service contract with the Company for a term of three years. None of our Directors and Supervisors have entered into, or have proposed to enter into, a service contract with the Company (other than contracts determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

Procedures and processes for appointment, re-election and removal of Directors are set out in the Articles of Association. The Human Resources and Nomination Committee is responsible for reviewing the composition of the Board, and providing recommendations to the Board in relation to the appointment, re-election and succession planning for Directors.

Board Meetings

Board meetings are divided into regular Board meetings and extraordinary Board meetings. Regular Board meetings shall be convened at least four times a year. Regular Board meetings shall not be convened by way of written resolution.

The Chairperson of the Board shall convene an extraordinary Board Meeting within ten days from the date of receipt of the requests under one of the following circumstances:

- (1) joint request of more than one-third of the Directors;
- (2) request of the Board of Supervisors;
- (3) request of more than one half of the independent Directors;
- (4) when the Chairperson of the Board deems necessary;
- (5) request in writing by Shareholders who hold 10% or more of the shares with voting rights of the Company;
- (6) request of the General Manager; and
- (7) other circumstances as stipulated in the Articles of Association.

CORPORATE GOVERNANCE REPORT

To convene an extraordinary Board Meeting, a notice shall be given to the Directors at least seven days before the date of meeting by telex, telegraph, facsimile, registered mail, e-mail or through personal delivery (except as otherwise stipulated in applicable laws, statutes, securities regulatory rules and the Articles of Association in respect of regular Board meetings). Contents of the notice shall include the time and venue of the meeting, the duration of the meeting, subject matter and proposals of the meeting, the issue date of the notice and other relevant documents for the meeting. With written consent of all directors, the notice period requirement of the extraordinary Board meetings may be waived.

The Board meeting may be convened by way of on-site meeting or written resolution (except as otherwise required by Listing Rules to convene by way of on-site meeting or under the circumstances as stipulated in the Articles of Association). To facilitate the Directors' attendance of the Board meetings, on-site meetings may be held by way of telephone, video or others means, and Directors who attend the Board meetings by such means shall be deemed to have attended the on-site meeting in person.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail on the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are/will be sent to the Directors for consideration within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all of the Directors.

During the reporting period, the Board held 11 Board meetings and convened 4 general meetings. Attendance of the Directors attending Board meetings and general meetings is set out in the following table:

Director	Number of Board meetings attended/ number of attendance in Board meetings required	Number of general meetings attended/ number of attendance in general meetings required
Executive Directors		
Wang Yingli	11/11	4/4
Wan Zhong	11/11	4/4
Non-executive Directors		
Xiao Hua	8/8	3/3
Jin Tongshui	11/11	4/4
Independent non-executive Directors		
Yen Huai-chiang	11/11	4/4
Ding Huiping	11/11	4/4
Meng Rujing	11/11	4/4
Resigned Director		
Wang Liang	2/3	0/1

CORPORATE GOVERNANCE REPORT

Notes:

- (1) Attendance in meetings includes on-site attendance and attendance by way of telephone and video.
- (2) Please refer to "Changes of Directors, Supervisors and Senior Management – Changes of Directors" for the changes of Directors.

Model Code for Conducting Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for its Directors and Supervisors to conduct securities transactions. Upon specific enquiries made by the Company to all of the Directors and Supervisors, each of the Directors and Supervisors has confirmed that they had complied with the required standard as set out in the Model Code throughout the period from the listing date to 31 December 2017.

Throughout the period from the Listing Date up to 31 December 2017, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard as set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to consult with the Company's senior management independently.

The daily management, administration and operations of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board is in charge of performing the functions set out in code provision D.3.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices in compliance with legal and regulatory requirements, the compliance of the Company's code on securities transactions, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Audit Committee

The Audit Committee consists of three members, namely Mr. Ding Huiping (Chairperson), Mr. Jin Tongshui and Ms. Meng Rujing, majority of whom are independent non-executive directors. The Audit Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Audit Committee is accountable and reports to the Board.

The major duties and authority of the Audit Committee are as follows:

- (1) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any issues of their resignation or dismissal;
- (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditors the nature and scope of the audit and the reporting obligations before the audit commences;
- (3) to formulate and implement policy on the provision of non-audit services by the external auditors. For this purpose, "external auditor" includes any institution that is under common control, ownership or management with the auditor or any institution that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the domestic or international business of such auditor. The audit committee shall report to the Board and advise on any matters where action or improvement is needed;
- (4) to monitor the integrity, accuracy and fairness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant opinions on financial reporting as set out therein. In reviewing the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental issues;
 - (iii) significant adjustments resulting from audit;
 - (iv) the assumption of going concern of the Company and any qualified opinions;
 - (v) whether compliance with accounting standards; and
 - (vi) whether compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.

CORPORATE GOVERNANCE REPORT

- (5) regarding paragraph (4) above:
 - (i) members of the Audit Committee shall liaise with the Board and the senior management members of the Company. The Audit Committee shall meet at least twice a year with the Company's external auditors; and
 - (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.
- (6) to review the Company's financial control, and unless expressly addressed by a separate risk control and audit committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;
- (7) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish and maintain effective systems. Such discussion shall consider the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- (8) to examine major investigation findings on risk management and internal control matters and the management's response to these findings on its own initiative or as authorised by the Board;
- (9) to ensure coordination between the internal and external auditing bodies and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to examine and monitor the effectiveness of the internal audit function;
- (10) to review the Group's financial and accounting policies and practices;
- (11) to review the external auditors' letters to the management on audit results, any material queries raised by the auditors to the management about accounting records, financial accounts or control system and the management's response;
- (12) to ensure that the Board will provide a timely response to the issues raised in the external auditors' letter to the management on audit results;
- (13) to report to the Board on the matters included under the section headed "Audit Committee" in Appendix 14 to the Listing Rules;
- (14) the Audit Committee shall handle the following issues:
 - (i) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and appropriate follow-up action taken by the Company;

CORPORATE GOVERNANCE REPORT

- (ii) the Audit Committee shall establish a whistleblowing policy and system for employees and other persons who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- (15) to act as the key representative body for overseeing the relationship between the Company and the external auditors; and
- (16) any other matters as authorised by the Board of the Company.

The terms of reference of the Audit Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

During the reporting period, attendance of each member of the Audit Committee attending committee meetings is set out in the following table:

Name of Director	Number of meetings attended/ number of attendance required
Mr. Ding Huiping (<i>Chairperson</i>)	2/2
Mr. Jin Tongshui	2/2
Ms. Meng Rujing	2/2

For details concerning these meetings, please refer to this section headed "Performance of Duties by the Board and Its Committees".

Human Resources and Nomination Committee

The Human Resources and Nomination Committee consists of three members, including an executive Director, namely Ms. Wang Yingli (Chairperson), and two independent non-executive Directors, namely Mr. Ding Huiping and Ms. Meng Rujing. The Human Resources and Nomination Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Human Resources and Nomination Committee is accountable and reports to the Board.

The major duties of the Human Resources and Nomination Committee are as follows:

- (1) to carry out regular review at least once each year in respect of the structure, size and composition (including the aspects of skills, knowledge and experience) of the Board, and to make recommendations with regard to any proposed changes made to the Board in line with the Company's strategies;
- (2) to identify individuals with suitable qualifications for senior management position other than directorship, general manager or the secretary to the Board, and to select and nominate such individuals for senior management roles other than directorship, general manager or the secretary to the Board or to advise the Board in respect thereof;

CORPORATE GOVERNANCE REPORT

- (3) to assess the independence of independent Directors;
- (4) to make recommendations to the Board on matters in relation to the appointment or reappointment of Directors and succession planning for Directors (in particular, the Chairperson of the Board and the General Manager); and
- (5) any other matters as authorised by the Board.

The Human Resources and Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skills and abilities to commit time and effort to carry out the duties. The recommendations of the Human Resources and Nomination Committee will then be put to the Board for decision.

During the reporting period, the written terms of reference of the Human Resources and Nomination Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

Attendance of each member of the Human Resources and Nomination Committee attending committee meetings is set out in the following table:

Director	Number of meetings attended/ number of attendance required
Ms. Wang Yingli (<i>Chairperson</i>)	1/1
Mr. Ding Huiping	1/1
Ms. Meng Rujing	1/1

For details concerning this meeting, please refer to this section headed "Performance of Duties by the Board and Its Committees".

Remuneration Committee

The Remuneration Committee consists of three members, including two independent non-executive Directors, namely Ms. Meng Rujing (Chairperson) and Mr. Yen Huai-chiang, and an executive Director, namely Mr. Wan Zhong. The Remuneration Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Remuneration Committee is accountable and reports to the Board.

The major duties and authority of the Remuneration Committee are as follows:

- (1) to make recommendations to the Board on the remuneration policy and structure for all Directors and senior management members and on the establishment of a formal and transparent procedure for formulating the remuneration policy;
- (2) to assess the performance of duties of the Directors and senior management members of the Company, and to appraise and assess their performance;

CORPORATE GOVERNANCE REPORT

- (3) to supervise the implementation of the Company's remuneration system;
- (4) to review and approve the remuneration proposals for senior management members with reference to the corporate guidelines and objectives formulated by the Board;
- (5) to make recommendations to the Board on the specific remuneration packages of certain executive Directors and senior management members, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- (6) to make recommendations to the Board on the remuneration of the non-executive Directors;
- (7) to consider salaries paid by comparable companies, time commitment and duties and employment conditions elsewhere in the Group;
- (8) to review and approve compensation payable to executive Directors and senior management members for loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair, reasonable and not excessive;
- (9) to review and approve arrangement of compensation payable to Directors for termination of or removal from office due to misconduct to ensure that it is consistent with contractual terms and is otherwise reasonable and appropriate;
- (10) to ensure that no Director or any of his/her associates (as defined under the Listing Rules) is involved in determining his/her own remuneration;
- (11) to consult with the Chairperson of the Board and/or General Manager about the remuneration proposals for other executive Directors; and
- (12) any other matters as authorised by the Board.

The written terms of reference of the Remuneration Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

During the reporting period, attendance of each member of the Remuneration Committee attending committee meetings is set out in the following table:

Name of Director	Number of meetings attended/ number of attendance required
Ms. Meng Rujing (<i>Chairperson</i>)	1/1
Mr. Wan Zhong	1/1
Mr. Yen Huai-chiang	1/1

For details concerning this meeting, please refer to this section headed "Performance of Duties by the Board and Its Committees".

CORPORATE GOVERNANCE REPORT

Business Decision Committee

The Business Decision Committee consists of three members, including two executive Directors, namely Ms. Wang Yingli (Chairperson) and Mr. Wan Zhong, and a non-executive Director, namely Mr. Jin Tongshui. The Business Decision Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Business Decision Committee is accountable and reports to the Board.

The major duties of the Business Decision Committee are as follows:

- (1) to examine and approve collective fund trust business submitted by the General Manager's Office Meeting;
- (2) to examine and approve significant individual fund trust business that the General Manager's Office Meeting considers necessary;
- (3) to examine and approve specific investments business in financial products with the proprietary funds of the Company within the overall amount determined by the Board;
- (4) to examine and approve loan projects with the proprietary funds of the Company;
- (5) to examine and approve disposal plans of projects at risk invested by collective trusts of the Company or individual trusts that the General Manager's Office Meeting considers necessary;
- (6) to submit annual work report to the Board;
- (7) other duties authorised by the Board.

The written terms of reference of the Business Decision Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

During the reporting period, attendance of each member of the Business Decision Committee attending committee meetings is set out in the following table:

Name of Director	Number of meetings attended/ number of attendance required
Ms. Wang Yingli (<i>Chairperson</i>)	65/65
Mr. Wan Zhong	65/65
Mr. Jin Tongshui	65/65

For details concerning these meetings, please refer to this section headed "Performance of Duties by the Board and Its Committees".

CORPORATE GOVERNANCE REPORT

Strategies and Risk Management Committee

The Strategies and Risk Management Committee consists of three members, including two executive Directors, namely Ms. Wang Yingli (Chairperson) and Mr. Wan Zhong, and a non-executive Director, namely Mr. Xiao Hua. The Strategies and Risk Management Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Strategies and Risk Management Committee is accountable and reports to the Board.

The duties of the Strategies and Risk Management Committee are as follows:

- (1) to research and propose recommendations on medium and long-term development strategies of the Company according to the macro-economic environment, trend of industry development and the operating position of the Company;
- (2) to inspect, supervise and evaluate the implementation of the development strategy of the Company;
- (3) to organize and formulate special plans for development of trust business and proprietary business of the Company;
- (4) to understand and master the major risks faced by the Company and its risk management status;
- (5) to consider the annual or special risk management reports of the Company;
- (6) to review the soundness of the risk management mechanism of the Company, effectiveness of the policies and measures, and rationality of the risk control process;
- (7) to consider the risk strategies and major risk management solutions, as well as criteria or mechanism for judgment of major decisions, major risks, major events and important business flow;
- (8) to review and supervise the compliance and implementation of laws and regulations of the Company;
- (9) to provide advice and recommendations for risk prevention and control of the trust business of the Company; and
- (10) other duties as stipulated by the Board.

The written terms of reference of the Strategies and Risk Management Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

During the reporting period, attendance of each member of the Strategies and Risk Management Committee attending committee meetings is set out in the following table:

Name of Director	Number of meetings attended/ number of attendance required
Ms. Wang Yingli (<i>Chairperson</i>)	1/1
Mr. Wan Zhong	1/1
Mr. Xiao Hua	1/1

For details concerning this meeting, please refer to this section headed "Performance of Duties by the Board and Its Committees".

Trust Committee

The Trust Committee consists of three members, including two independent non-executive Directors, namely Mr. Yen Huai-chiang (Chairperson) and Mr. Ding Huiping, and a non-executive Director, namely Mr. Jin Tongshui. The Trust Committee being special committees under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Trust Committee accountable to the Board makes reporting to the Board.

The major duties of the Trust Committee include but not limited to the following:

- (1) to examine the due payment of trust business of the Company and the realization of the interests of beneficiaries;
- (2) to supervise the management and utilization of collective trust properties;
- (3) to conduct regular evaluation for operation of the trust business of the Company and provide advice and suggestions for the development of trust business of the Company;
- (4) to consider specific measures for protecting the interests of the beneficiaries when the interests of the Company or Shareholders conflict with those of beneficiaries, and urge the Company to perform its entrusted duties according to laws; and
- (5) other duties stipulated by the Board.

The written terms of reference of the Trust Committee are available for inspection on the websites of the Hong Kong Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

During the reporting period, attendance of each member of the Trust Committee attending committee meetings is set out in the following table:

Name of Director	Number of meetings attended/ number of attendance required
Mr. Yen Huai-chiang (<i>Chairperson</i>)	1/1
Mr. Ding Huiping	1/1
Mr. Jin Tongshui	1/1

For details concerning this meeting, please refer to this section headed "Performance of Duties by the Board and Its Committees".

Remuneration of the Directors, Supervisors, Senior Management and Highest Paid Individuals

For details about the remuneration of Directors, Supervisors and five highest paid individuals of the Company, please refer to Note 11 to the consolidated financial statements.

The number of senior management members whose remuneration fall within the ranges below are listed as follows:

	Number of individuals Year ended 31 December	
	2017 ⁽²⁾	2016 ⁽¹⁾
RMB500,000 and below	2	1
RMB500,001 – RMB1,000,000		1
RMB1,000,001 – RMB1,500,000		1
RMB1,500,001 – RMB2,000,000	1	
RMB2,000,001 – RMB2,500,000		
RMB2,500,001 – RMB3,000,000	1	1
RMB3,000,001 – RMB3,500,000		
RMB3,500,001 – RMB4,000,000		
RMB4,000,001 – RMB4,500,000		1
RMB4,500,001 – RMB5,000,000		
RMB5,000,001 – RMB5,500,000		
RMB5,500,001 – RMB6,000,000	1	
RMB6,000,001 or above		1
Total	5	6

CORPORATE GOVERNANCE REPORT

Note:

- (1) A senior management member with the remuneration in the range from RMB500,001 to RMB1,000,000 resigned in March 2016, and the remuneration disclosed was the fee paid to such senior management member during the term of office. Mr. Wan Zhong has been serving as the Director of the Company since July 2016. For details of his remuneration, please refer to Note 11 to the consolidated financial statements of this annual report.
- (2) A senior management member with the remuneration below RMB500,000 was dismissed by the Company in July 2017, and the remuneration disclosed was the fee paid to such senior management member during the term of office.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their duties for preparing the financial statements of the Company for the year ended 31 December 2017 which give a true and fair view of the Group as well as the affairs of the Company and of the Company's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 162 of this annual report.

Risk Management and Internal Control

Risk Management and Internal Control Systems

The Board understands that the Board shall, in accordance with the requirements of the corporate internal control standards and system, establish and execute sound and effective internal controls, undertake to maintain adequate risk management and internal control systems and truthfully disclose the evaluation report of internal controls, to safeguard the Shareholders' investments and the Company's assets, and conduct annual review on the effectiveness of the internal control systems.

During the reporting period, details about establishment of the risk management systems, risk management structure and control measures of the Company are set out in "Risk Management" under the section headed "Management Discussion and Analysis" of this annual report.

CORPORATE GOVERNANCE REPORT

The internal control of the Company is aimed at ensuring a reasonable legal compliance of operation and management, the safety of assets, the truthfulness and completeness of financial reports and relevant information and the improvement on operational efficiency and effectiveness so as to realise our developmental strategies. We have established an internal control system comprising of the regulation system, the benchmark system and the assessment system. To facilitate the improvement of our internal control system, we have comprehensively reviewed various internal procedures of the Company, and we have requested the relevant parties to rectify the problems identified.

In terms of corporate governance, the Board is ultimately responsible for the sound establishment, effective implementation and overall examination and review of the internal control system. The Board of Supervisors supervised the Board and the management on the sound establishment, effective implementation and regular review of the Company's internal control system. The management organised and led the daily operation of the internal control of the Company, established and improved the related system of the operational sector of the internal control system, and comprehensively promoted the implementation of the internal control system. The Audit Committee of the Board annually reviewed the Company's evaluation report on internal control for the year.

In terms of the Company's operation, the business department is the first line of defence and had established an internal control mechanism of voluntarily implementing the internal control, assessing its own risk exposure, conducting self-correction and reporting in a timely manner. The legal and compliance department, as the second line of defence, acts as the functional department for internal control and compliance management. It leads the establishment and maintenance of the internal control system, and supervises and examines the implementation of internal control by a combination of routinised and targeted inspections. The audit department, as the third line of defence, conducts audit and evaluation on the adequacy and effectiveness of internal control, reported problems identified in the audit to the Board, and provides supervision and follow-up on the rectification.

Pursuant to the relevant laws, regulations and the Listing Rules, with reference to the internal control system of the Company, the Company formulated an implementation plan for internal control assessment for the year of 2017, and had defined the substance, procedures and methods of internal control reviews, and actively conducted on-site testings and off-site reviews on internal control.

The internal control review of the Company for the year of 2017 covered various departments and included the trust business, and proprietary business. The internal control review undertook a combination of a comprehensive self-assessment of each department, on-site testings and targeted inspections. Designated personnel of each department were specifically responsible for sorting out the main business logistics one by one to find out defects in internal control, actively carrying out rectification and optimizing the establishment and implementation of internal control, with reference to the business development situations. No material deficiencies in internal control were identified during the internal control review, while matters to be addressed did not affect the Company's operations and management in substance. The Company viewed such matters with great importance and had taken further measures to improve the situation.

CORPORATE GOVERNANCE REPORT

The Board continues to supervise the Company's risk management and internal control systems, and has, through the strategies and risk control committee and the audit committee, had an annual review on the risk management and internal control systems for the year ended 31 December 2017, which covered all the material aspects. After receiving report from the risk control department, the legal and compliance department and the audit department and obtaining the management's confirmation on the effectiveness of the risk management and internal control systems provided to the Board, the Board confirmed that the Company's risk management and internal control systems are sound, proper, effective and adequate. The annual review has also confirmed that the Company's resources and qualifications and experience in accounting, internal control and financial reporting functions were adequate, and the training courses received by its staff and the related budgets were adequate.

Internal Auditing

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

During the reporting period, the Company had further improved the structure of an independent internal audit organisation, which was led by the Board and consisted of the Audit Committee and the audit department. The Board was responsible for supervising, reviewing and evaluating the Company's internal audit to ensure that the internal audit was independent and effective. The audit committee of the Board was responsible for reviewing the Company's internal audit methods, audit policies and procedures and annual auditing plans and providing guidance and supervision. The Company had adhered to the principles of independence, objectivity, prudence, efficiency, importance and pertinence during the internal auditing process. The Company's internal audit system was comprehensive covering business operation, risk management, internal control and corporate governance.

Under the leadership of the Audit Committee of the Board, the audit department organized and coordinated the Company's annual internal control audit during the reporting period. We extensively collected evidence on the effectiveness of the design and operation of our internal control system, and analyzed and identified defects in internal controls. Additionally, the Company organized the risk management and internal control assessment team as well as relevant departments to closely cooperate with the external auditors in the work of internal control audit of financial statements. The internal control audit has performed auditing for all key processes and control points related to major accounting subjects. The external auditors regularly communicated with the management on audit results.

CORPORATE GOVERNANCE REPORT

During the reporting period, the Company promoted the concept that “prioritises compliance, requires all staff to comply with laws and regulations consciously and encourages staff to create value when complying with laws and regulations”. It established a compliance management system that “defines rules on internal control, sets restrictions on each department, specifies responsibility of each position, sets procedures for all operation, requires supervision over all processes, demands close monitoring on risks, request performance assessment, and sets clear accountability”. The Company maintained a sound development of internal control management, strengthened the construction of comprehensive risk control system, and improved the risk control and compliance system. Details are as follows:

- (1) The internal control guide system and process were thoroughly reviewed. The Company also made corresponding amendments on the control points;
- (2) The Company reviewed all systems and procedures of the trust business, amended, improved and supplemented all business management rules and business operation procedures, thus streamlining the procedures, fixing any loopholes and preventing any business risks;
- (3) Project evaluation mechanism was improved. The Risk Control Department of the Company set preliminary evaluation process before the project was submitted to the Trust Business Review Committee. The department checked the basic information list of collective project, highlighted potential risks, conducted financial analysis on counterparty, assisted the Business Department to improve due diligence report, and submitted opinions to the General Manager’s Office Meeting and the Business Decision Committee for reference. The department amended the due diligence report templates, and classified businesses into real estate segment, trust-government cooperation, industry and commerce, and securities investments. It made adjustments to report summaries according to characteristics, latest development and evaluation focus of each categories, making them more targeted and practical; and
- (4) The Company put greater efforts on education to combat corruption.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of the business of the Company. Serving as the executive body of the Company, the senior management is responsible for the Board of Directors and is subject to the supervision of the Board of Supervisors. Powers and authority of the senior management and the board of Directors are divided in strict compliance with the Articles of Association and other corporate governance documents.

Brief biographical details of the senior management are set out in the section headed “Details of Directors, Supervisors and Senior Management” of the annual report.

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2017, the annual audit service payable to the auditor by the Company amounted to RMB2.49 million (tax inclusive), and RMB2.425 million (tax inclusive) has been paid for initial public offering service, and other professional service.

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Mr. He Chuangye (“**Mr. He**”) is the joint company secretary of the Company. He is responsible for advising the Board on corporate governance matters and ensuring the Board policies and procedures, the applicable laws, rules and regulations are complied with.

In order to maintain good corporate governance and ensure compliance with the Listing Rules and the applicable Hong Kong laws, the Company also appointed Ms. Lai Siu Kuen (黎少娟) (“**Ms. Lai**”), an associate director of TMF Hong Kong Limited (a company secretarial service provider) as another joint company secretary of the Company to assist Mr. He in performing his duties as company secretary of the Company. The primary contact person at the Company is Mr. He.

Mr. He and Ms. Lai have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2017.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Company’s business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of the Company’s information, which will enable Shareholders and investors to make informed investment decisions.

The general meetings of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairperson of the Company and the Chairperson of the Board Committee of the Company will attend the general meetings to answer questions. Of which, the auditors of the Company will answer questions about the conduct of the audit, the preparation and contents of the auditor’s report, the accounting policies and the independence of auditors at the annual general meetings.

After the Company was listed on the Hong Kong Stock Exchange, the senior management of the Company will attend the annual results press conference every year in person to provide important information for the capital market and media, answer important questions that investors are most concerned recently, and facilitate understanding of the Company’s business by different sectors through various activities such as analyst meetings, press conferences and investor roadshows.

To promote effective communication, the Company adopts a shareholders’ communication policy that aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website (<http://www.sitic.com.cn>), where up to date information on the Company’s business operations and developments, financial information, corporate governance practices, and other information are available for public access.



2016 Annual General Meeting



2017 Annual Results Press Conference

CORPORATE GOVERNANCE REPORT

TRANSPARENCY OF INFORMATION DISCLOSURE SYSTEM

The Company has always maintained a good information disclosure mechanism. While keeping high degree of transparency during communications with media, analysts and investors, we attach great importance to the handling of insider's information. In general, the authorized speakers only clarify and explain on information that are available on the market, and avoid providing or divulging any unpublished insider's information either as an individual or as a team. Before conducting any external interview, if the authorized speaker has any doubt about the information to be disclosed, he/she would seek verification from the concerned person or the person-in-charge of the relevant department, so as to determine the accuracy of such information. Discussions on the Company's key financial data or other financial indicators are also avoided during the blackout periods.

In respect of exchange and feedback on internal information, the Company has established management system and structure for information exchange and formed a clear and complete pathway for internal reporting. Through the business management system, the official website of the Company, Wechat, the Company's mailbox and other platforms, the Company will gather, handle, store up, utilize and give feedback on the management and business information, to ensure timely understanding and comprehension of such related information for the Shareholders, the Board, the Board of Supervisors, the senior management and the employees of the Company, and will implement the material information reporting system within the Company. Meanwhile, through the continuous utilization of the information measures, the Company can optimize the information flow and integrate the information system to constantly enhance the effectiveness of decision-making and operation in term of management.

SHAREHOLDERS RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at the general meetings of the Company, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Hong Kong Stock Exchange in a timely manner after each general meeting.

Convening an Extraordinary General Meeting

An extraordinary general meeting shall be convened within two months from the date of occurrence of one of the following circumstances:

- (1) the number of directors is less than the number required by the PRC Company Law or less than two-thirds of the number stipulated in the Articles of Association;
- (2) the outstanding loss of the Company has reached one-third of the total paid-up capital;
- (3) Shareholders who individually or jointly hold 10% or more of the shares of the Company have requested to convene the extraordinary meeting in writing;
- (4) the Board deems it necessary to convene the meeting;

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- (5) the Board of Supervisors proposes to convene the meeting; and
- (6) any other circumstances as stipulated by the laws, administrative regulations, departmental rules or the Articles of Association.

The Shareholding mentioned in item (3) of the preceding paragraph shall be determined at the close of trading on the date on which such Shareholders demand to convene the meeting in writing, or if it is not a trading day, the last trading day prior to such date.

Put Forward Proposals at General Meetings

When the Company convenes the general meeting, the Board, the Board of Supervisors and the Shareholders individually or jointly holding not less than 5% (inclusive) of the total number of shares carrying voting rights of the Company shall have the right to put forward proposals to the Company in writing. The Company shall include the matters falling within the scope of duties of the general meeting set out in the proposal in the agenda of the meeting.

Shareholders individually or jointly holding not less than 5% of the shares of the Company may submit an interim proposal to the convener of the general meeting in writing 10 days prior to the date of the general meeting. The convener shall issue a supplementary notice of the general meeting to notify other Shareholders within two days upon receipt of the proposal, and shall include the matters falling within the scope of duties of the general meeting set out in the proposals in the agenda of the meeting and submit to the general meeting for consideration.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board may send their enquiries to the Company's headquarters through email at ir1697@luxin.cn.

AMENDMENT TO CONSTITUTIONAL DOCUMENTS

Pursuant to the requirements of the applicable PRC laws and regulations and the Listing Rules, the Company has made amendments to the Articles of Association, which took effect upon the listing of the Company on the Hong Kong Stock Exchange on 8 December 2017, and the resolution on such amendments was considered and approved by the 2017 second extraordinary general meeting of the Shareholders on 8 June 2017. The Company obtained the approval from Shandong Office of CBRC for the amendments to the Articles of Association on 2 August 2017 for the approval of the revised Articles of Association.

Save for the above, as at the end of the reporting period, there was no material changes in the Articles of Association. A copy of Articles of Association is available on the websites of the Company and Hong Kong Stock Exchange.

CORPORATE GOVERNANCE REPORT

CONVENING OF GENERAL MEETING OF THE YEAR

Subjects of General Meeting and the Content of Resolutions

The Company convened the first extraordinary general meeting of 2017 by way of telecommunication voting on 13 March 2017, and considered and passed the Resolution on the Donation to Shandong Lucion Public Welfare Foundation, and approved the capital contribution of RMB2 million by the Company to Shandong Lucion Public Welfare Foundation by a one-off donation which was charged from the budget for 2017.

The Company convened the general meeting of 2016 in Jinan on 25 April 2017, with the resolutions as follows:

- (1) considered and approved the Resolution on the Waiver of the Notice Period of the General Meeting;
- (2) considered and approved the Resolution on the 2016 Final Account Report of Shandong International Trust Co., Ltd.;
- (3) considered and approved the Resolution on the 2017 Financial Budget Report of Shandong International Trust Co., Ltd.;
- (4) considered and approved the Resolution on the 2016 Profit Distribution Plan of Shandong International Trust Co., Ltd.;
- (5) the 2016 Net Capital Report of Shandong International Trust Co., Ltd. was heard;
- (6) the 2016 Report on Due Settlement and Interests Realisation of Beneficiaries of the Trust Business of the Company was heard;
- (7) the Notice Concerning Regulation Opinions Issued by the Shandong Office of China Banking Regulatory Commission to the Company was heard;
- (8) considered and approved the 2016 Work Report of the Board of Shandong International Trust Co., Ltd.;
- (9) considered and approved the 2016 Work Report of the Board of Supervisors of Shandong International Trust Co., Ltd.;
- (10) considered and approved the 2016 Work Report of the Independent Directors of Shandong International Trust Co., Ltd.;
- (11) considered and approved the Resolution on the Adjustment of the Relevant Terms of Appraisal Method of Remuneration Distribution of Shandong International Trust Co., Ltd. (Provisional);

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- (12) considered and approved the Resolution on the Engagement of Auditors of Shandong International Trust Co., Ltd.;
- (13) considered and approved the Resolution on the Equity Withdrawal by First-Trust Fund Management;
- (14) considered and approved the Resolution on the Equity Withdrawal by Dezhou Bank;
- (15) considered and approved the Resolution on the Equity Withdrawal by Zouping SPD;
- (16) the Resolution on the Listing Progress and the Further Work Plan was heard; and
- (17) considered and approved the Resolution on the Pricing of H Share Listing and the Relevant Authorisation.

The Company convened the second extraordinary general meeting of 2017 by way of telecommunication voting on 8 June 2017, with the resolutions as follows:

- (1) considered the Resolution on the Change of Director of Shandong International Trust Co., Ltd. Upon consideration, Mr. Wang Liang ceased to be a Director of the Company upon selection of Mr. Xiao Hua as a Director of the Company at the meeting. The qualification of Mr. Xiao Hua as a Director shall be submitted to Shandong Office of CBRC for approval in accordance with the relevant regulations;
- (2) considered the Resolution on the Change of Supervisor of Shandong International Trust Co., Ltd. Upon consideration, Mr. Ding Jian ceased to be a Supervisor of the Company upon selection of Mr. Guan Wei as a Supervisor of the Company at the meeting; and
- (3) considered and approved the Resolution on the Amendments to the Articles of Association of Shandong International Trust Co., Ltd.

The Company convened the third extraordinary general meeting of 2017 by way of telecommunication voting on 9 August 2017, at which the Resolution on the Signing of the Supplementary Agreement of the Equity Transfer Agreement was considered and approved, and the signing of the Supplementary Agreement of the Equity Transfer Agreement was agreed.

Performance of Duties by the Board and Its Committees

Board of Directors

The Company convened the 12th meeting of the first Session of the Board of 2017 by way of telecommunication voting on 13 March 2017, at which the Resolution on Capital Contribution to Shandong Lucion Public Welfare Foundation (Draft) was considered and passed.

The Company convened the 13th meeting of the first Session of the Board of 2017 on 25 April 2017 in Jinan, with the resolutions as follows:

- (1) considered and approved the 2016 Work Report of the General Manager of Shandong International Trust Co., Ltd.;

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- (2) considered and approved the 2016 Final Account Report of Shandong International Trust Co., Ltd. (Draft);
- (3) considered and approved the 2017 Financial Budget Report of Shandong International Trust Co., Ltd. (Draft);
- (4) considered and approved the 2016 Profit Distribution Plan of Shandong International Trust Co., Ltd. (Draft);
- (5) the 2016 Net Capital Report of Shandong International Trust Co., Ltd. (Draft) was heard;
- (6) the 2016 Report on Due Settlement and Interests Realization of Beneficiaries of the Trust Business of the Company was heard;
- (7) considered and approved the 2016 Internal Audit Report and the 2017 Work Plan on Internal Auditing of Shandong International Trust Co., Ltd.;
- (8) considered and approved the 2016 Report on Implementation of Resolution on Risk Tolerance;
- (9) the 2016 Report on Compliance Risk Management Assessment was heard;
- (10) the Notification on the Regulatory Reviews on the Company by Shandong CBRC was heard;
- (11) considered and passed the 2016 Work Report of the Board of Shandong International Trust Co., Ltd. (Draft);
- (12) considered and passed the 2016 Work Report of Independent Directors of Shandong International Trust Co., Ltd.;
- (13) the 2016 Report on Performance of Duties of the Audit Committee was heard;
- (14) the 2016 Report on Performance of Duties of the Business Decision Committee was heard;
- (15) the 2016 Report on Performance of Duties of the Trust Committee was heard;
- (16) the 2016 Report on Performance of Duties of the Remuneration Committee was heard;
- (17) considered and approved the Resolution on the Assessment Opinions of the Board Regarding Operation of the Leadership in 2016 and the 2017 Appraisal Method (Provisional).;
- (18) considered and passed the Resolution on Adjustment to the Relevant Terms of Appraisal Method of Remuneration Distribution of Shandong International Trust Co., Ltd. (Draft);
- (19) considered and approved the Resolution on Engagement of Auditors of Shandong International Trust Co., Ltd. (Draft);
- (20) considered and approved the Resolution on Equity Withdrawal by First-Trust Fund (Draft);

CORPORATE GOVERNANCE REPORT

- (21) considered and approved the Resolution on Equity Withdrawal by Dezhou Bank (Draft);
- (22) considered and approved the Resolution on Equity Withdrawal by Zouping SPD (Draft);
- (23) considered and approved the Resolution on Acquisition of Commercial Properties for the Network Construction of the Wealth Management Center;
- (24) considered and passed the Resolution on Waiver of Notice Period of General Meetings (Draft);
- (25) considered and passed the Resolution on Proposal for Convening of the 2016 Annual General Meeting of Shandong International Trust Co., Ltd.;
- (26) the Report on the Listing Progress and the Further Work Plan was heard; and
- (27) considered and approved the Resolution on the Pricing of H Share Listing and the Relevant Authorisation (Draft).

The 14th meeting of the first session of the Board of the Company in 2017 convened on 8 June 2017 by way of telecommunication voting considered and approved the Resolution on Amendments to the "Articles of Association of Shandong International Trust Co., Ltd." (Draft), and agreed to submit the above resolution to the general meeting for consideration.

The 15th meeting of the first session of the Board of the Company in 2017 convened on 8 June 2017 by way of telecommunication voting considered and approved the Resolution on Election of the Vice Chairman of the Company, and agreed to appoint Mr. Xiao Hua as the vice chairman of the first session of the Board. Pursuant to relevant requirements, the qualification for the appointment of vice chairman is subject to the approval of the CBRC Shandong bureau.

The 16th meeting of the first session of the Board of the Company in 2017 convened on 26 June 2017 by way of telecommunication voting considered and approved the Resolution on the Adjustment of "Acquisition of Commercial Properties for the Network Construction of the Wealth Management Center".

The 17th meeting of the first session of the Board of the Company in 2017 convened on 3 July 2017 by way of telecommunication voting considered and approved the Resolution on Dismissing Song Chong as the vice manager of the Company.

The 18th meeting of the first session of the Board of the Company in 2017 convened on 3 August 2017 by way of telecommunication voting considered and approved the Resolution on the Adjustment of Members of Strategic and Risk Control Committee under the Board.

The 19th meeting of the first session of the Board of the Company in 2017 convened on 21 September 2017 by way of telecommunication voting considered and approved the Resolution on Supporting the Poverty Alleviation Work of the "First Secretary" of CSRC of Shandong bureau Stationed in Village.

CORPORATE GOVERNANCE REPORT

The 20th meeting of the first session of the Board of the Company in 2017 convened on 16 November 2017 in Jinan formulated the following resolutions:

- (1) The Report on the Optimisation and Adjustment of the Organization Structure of the Company was heard at the meeting;
- (2) The Report on the Progress of the Listing of H Shares of Shandong International Trust Co., Ltd. was heard at the meeting;
- (3) The Resolution on Formulating Three Policies, e.g. Management Requirement on Information Disclosure of Shandong International Trust Co., Ltd. was considered and approved at the meeting;
- (4) The Resolution on Matters regarding Price Determination in relation to the initial public offering of H Shares of Shandong International Trust Co., Ltd. was considered and approved at the meeting; and
- (5) The Resolution on the Prospectus and Other Documents regarding Approving the Company's Issue of H Shares and Listing on the Main Board of the Stock Exchange of Hong Kong Limited was considered and approved at the meeting.

The 21st meeting of the first session of the Board of the Company in 2017 convened on 20 December 2017 by way of telecommunication voting considered and approved the Resolution on the Optimisation and Adjustment of the Organization Structure of the Company.

The 22nd meeting of the first session of the Board of the Company in 2017 convened on 29 December 2017 by way of telecommunication voting considered and approved the Resolution on Reward Distribution on the Operation Department of the Board of the Company.

Board Committees

In 2017, the Audit Committee of the Board convened 2 meetings, considered and reported to the Board on the 2016 Final Account Report, the 2016 Net Capital Report, the 2016 Internal Audit Report and 2017 Work Plan on Internal Auditing of Shandong International Trust Co., Ltd., the 2016 Report on Performance of Duties of the Audit Committee, the Resolution on Engagement of Auditors of Shandong International Trust Co., Ltd. and other matters, and provided important comments and recommendations on the financial management, internal control and other aspects of the Company.

In 2017, the Business Decision Committee of the Board convened a total of 65 meetings, of which 132 trust projects were considered and approved.

In 2017, the Trust Committee of the Board convened 1 meeting to consider and approve and report to the Board on the "Report on the Due Payment of Trust Business of the Company and the Realization of the Interests of Beneficiaries of 2016" and other matters. The Trust Committee gave out rationalized suggestions for the resolution regarding the business development of the Company, such as strengthening the protection system of investor's rights and interests, strengthening the operating management of trust projects, and achieving the maximization of beneficiary trust.

CORPORATE GOVERNANCE REPORT

In 2017, the Remuneration Committee of the Board convened 1 meeting to consider and approve and report to the Board on “The Board’s Proposals on the 2016 Assessment Opinions of the Management Team and the 2017 Assessment Methods” and other matters. The Remuneration Committee called for advice and suggestions in respect of the remuneration management and assessment of directors and senior management members, and performed their duties with due diligence.

In 2017, the Strategies and Risk Control Committee of the Board convened 1 meeting to consider and approve and report to the Board on the “2016 Annual Compliance Risk Management Assessment Report”, the “Report on the Implementation of the Risk Tolerance Resolution of 2016” and other matters, and proposed recommendations on the medium- and long-term development strategies in respect of macroeconomic environment, industrial development trend and the operating conditions of the Company.

In 2017, the Human Resources and Nomination Committee of the Board convened 1 meeting to review the structure of the Board, assess the independence of independent Directors, and consider and approve and report to the Board on the “Resolution on Dismissal of Mr. Song Chong as the Vice General Manager”. Such resolution was considered and approved by the Board.

All committee members attended the above respective meetings.

Implementation of matters proposed and authorised in the Shareholders’ general meeting

During the reporting period, the Board of the Company diligently implemented the resolutions of general meeting and the authorised matters of the general meeting. There was no violation of national laws, regulations and the Articles of Association and any acts which would violate the interests of the Company.

Performance of Duties of the Board Committees

During the reporting period, all Board Committees diligently performed their duties and played an active role in strengthening the internal management of the Company and promoting the development of the business of the Company.

Performance of Duties of the Independent Directors

During the reporting period, each of the independent Directors actively took part in the Company’s Board meetings and Shareholders’ general meetings, conscientiously reviewed various proposals and reports, took the initiative to participate in discussions of the Company’s major decision-making matters, and independently and objectively expressed professional advice and recommendations on the Company’s operation and management tasks, and conducted a comprehensive supervision and inspection on the Company’s daily business, management and operation, performance of duties by the Board and senior management as well as implementation of the Company’s internal management system, thereby effectively safeguarding the legitimate interests of the Company and Shareholders as a whole.

REPORT OF THE BOARD OF DIRECTORS

PRINCIPAL BUSINESSES AND BUSINESS REVIEW

The principal businesses of the Company are to provide trust business and proprietary business. The Company's business operations and business review as required by Schedule 5 to the Hong Kong Companies Ordinance are set out in the relevant sections of this annual report, including "Chairperson's Statement", "Management Discussion and Analysis", "Corporate Governance Report", "Significant Events", "Notes to the Consolidated Financial Statements" and this "Report of the Board of Directors".

In particular, please refer to "Business Overview" and "Environment and Prospects" under the section headed "Management Discussion and Analysis" in this annual report for the business review, discussion and analysis of the performance for the year, principal risks and uncertainties and future business development of the Company. Please refer to "Financial Overview" under the section headed "Management Discussion and Analysis" in this annual report for analysis of the key financial performance indicators of the Company. Please refer to "Market Analysis and Risks" under the section headed "Management Discussion and Analyses" in this annual report for the relevant laws and regulations compliance of which would have a significant impact on the Company. Please refer to "Human Resources Management" under the section headed "Management Discussion and Analysis" in this annual report and "Major Clients and Suppliers" in this section for the Company's relationships with its employees, clients and parties who have a significant impact on the Company.

RESULTS

The results of the Company for the year ended 31 December 2017 are set out in the independent auditor's report.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as "Management Discussion and Analysis" and "Chairperson's Statement", for the principal risks and uncertainties that the Company is required to disclose under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), please refer to "Market Analysis and Risks" under the section headed "Management Discussion and Analysis" in this annual report.

REPORT OF THE BOARD OF DIRECTORS

PROFITS AND DIVIDENDS DISTRIBUTION

The Company's profits for the year ended 31 December 2017 are set out in "Financial Overview" under the section headed "Management Discussion and Analysis" in this annual report.

The profit distribution plan for 2016 of the Company was considered and approved by the Shareholders of the Company at the 2016 annual general meeting of the Company held on 25 April 2017. The dividend for 2016 in the aggregate amount of approximately RMB254.2 million (tax exclusive) was distributed to Shareholders of the Company, of which RMB250.2 million (tax exclusive) was distributed to the Company's Shareholders from July to September 2017 and the remaining RMB4.0 million (tax exclusive) was distributed in January 2018.

The Board has recommended the payment of the final dividend of RMB0.173 per share (tax inclusive) in cash for the year ended 31 December 2017, representing a total payment of approximately RMB447.8 million (tax inclusive). The final dividend is subject to approval of the Shareholders at the forthcoming annual general meeting of the Company for 2017. If approved, the final dividend of the Company for the year ended 31 December 2017 will be denominated and declared in Renminbi. Distribution of the dividends to holders of Domestic Shares of the Company will be paid in Renminbi, while dividends to holders of H Shares of the Company will be paid in Hong Kong dollars of an equivalent amount. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average central parity exchange rate of the five business days preceding the date of the Company's 2017 annual general meeting (i.e. 25 May 2018), as announced by the People's Bank of China. Once approved at the Company's 2017 annual general meeting, the final dividends is expected to be distributed on 21 June 2018. The register of transfers of H Shares will be closed from Thursday, 31 May 2018 to Thursday, 7 June 2018 (both days inclusive), during which no H Shares transfer will be registered. Holders whose names appear on the Company's H Shares Register of members and the Domestic Share register of members on Thursday, 7 June 2018 will be entitled to receive the final dividend. In order to qualify for the distribution of final dividends, holders of H Shares are required to deposit all of the transfer documents together with the relevant H Share certificates at the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited located at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on Wednesday, 30 May 2018 for registration. A separate announcement will be published if there is any change to the aforesaid dates.

According to the Articles of Association, for holders of Domestic Shares, the Company shall calculate and declare dividends and other amounts payable in Renminbi, and shall pay such dividends and amounts within three months after the date of declaration of dividends. For holders of overseas listed shares, the Company shall calculate and declare dividends and other amounts payable in Renminbi, and shall pay such dividends and amounts in foreign currency within three months after the date of declaration of dividends. The exchange rate shall be the average closing rate for the relevant foreign currency announced by the People's Bank of China five working days prior to the declaration of the dividends and other distributions. Payment in foreign currency to holders of overseas listed shares shall be made in accordance with the relevant foreign exchange control regulations of China. The dividend distribution of the Company shall be implemented by the Board according to the authorisation delegated by the Shareholders' general meeting through an ordinary resolution. After the resolution on the profit distribution plan was passed at the general meeting of the Company, the Board shall finish the distribution of profits within two months after convening the general meeting.

REPORT OF THE BOARD OF DIRECTORS

The Company shall withhold and pay enterprise income tax and individual income tax for holders of H Shares in respect of the 2017 final dividends in accordance with relevant laws and regulations. The Company is required to withhold and pay enterprise income tax of 10% on behalf of holders of non-resident enterprise H Shares (including those H Shares registered under the name of HKSCC Nominees Limited). In addition, pursuant to the applicable provisions and implementation regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No.045 of the State Administration of Taxation (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), the Company is required to withhold and pay individual income tax for overseas non-resident individual holders of H Shares. Overseas resident individual Shareholders of a domestic non-foreign investment enterprise which issues stocks in Hong Kong are entitled to the relevant preferential tax treatments in accordance with the tax treaties entered into by and between his/her country of origin and China and the taxation arrangement between China and Hong Kong (Macau). Unless otherwise provided by the relevant tax laws and regulations or taxation arrangement, dividends distributed by a domestic non-foreign invested enterprise issuing shares in Hong Kong are generally subject to withholding rate of 10% of the individual income tax. If the final dividend for the year 2017 is approved at the annual general meeting, the Company will publish an announcement in respect of the withholding and payment of enterprise income tax and individual income tax.

The Company recommended that Shareholders consult their tax consultants in respect of the impact of China, Hong Kong and other tax affairs involving the possession and disposal of H Shares.

RESERVES AND DISTRIBUTABLE RESERVES

The details of the changes in the reserves of the Company for the year ended 31 December 2017 are set forth in Note 28 to the audited consolidated financial statements, and in the consolidated statement of changes in equity on page 172, respectively, of which the details of the reserve distributable to Shareholders are set forth in Note 28 to the audited consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company for the past five financial years is set out on page 7 of this annual report. Such summary does not form part of the audited consolidated financial statements.

DONATIONS

For the year ended 31 December 2017, the charity donations and other donations made by the Company were approximately RMB2.2 million.

PROPERTY, PLANT AND EQUIPMENT

None of the properties held by the Company had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. Details in relation to the changes in property and equipment of the Company for the year ended 31 December 2017 are set out in Note 15 "Property, Plant and Equipment" to the consolidated financial statements.

REPORT OF THE BOARD OF DIRECTORS

SHARE CAPITAL AND PUBLIC FLOAT

Details of the changes in the share capital of the Company for the year ended 31 December 2017 are set out in note 27 to the consolidated financial statements in this annual report.

For the year ended 31 December 2017, the issued share capital of the Company was 2,588,250,000 shares (of which 1,941,175,000 were Domestic Shares and 647,075,000 were H Shares). Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Hong Kong Stock Exchange and the Listing Rules) of the Company's total issued share capital were held by the public at any time during the period from the Listing Date and to the Latest Practicable Date.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

From the Listing Date to 31 December 2017, the Company did not purchase, sell or redeem any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

The Articles of Association do not contain any mandatory provision regarding pre-emptive rights. Pursuant to the Articles of Association, the Company may increase its registered capital by issuing shares by public or non-public offering, issuing shares to the existing Shareholders (except holders of preference shares), converting capital reserve to share capital or using other methods as allowed by applicable laws and administrative regulations or approved by relevant authorities.

MAJOR CLIENTS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate trustee's remuneration of the Company's top five trust schemes in terms of trustee's remunerations accounted for less than 30% of the Company's total fee and commission income during the relevant period.

To the knowledge of the Directors, none of the Directors, Supervisors and their respective close associates or any Shareholder holding more than 5% of the issued share capital of the Company has any interest in any of the trustor clients and counterparty clients of the Company's five largest trust schemes in terms of trustee's remuneration during the reporting period.

The Company has no major suppliers due to the nature of our business.

REPORT OF THE BOARD OF DIRECTORS

USE OF PROCEEDS

The Company was listed on the Hong Kong Stock Exchange on 8 December 2017. A total of 647,075,000 H shares were issued in the global offering (including 588,250,000 H shares issued in the global offering and 58,825,000 H shares converted from domestic shares and offered for sale in the global offering). The offer price was HK\$4.56 per H share. The nominal value is RMB1.00 per H share. After deduction of (i) the net proceeds from the sale of the sale shares by the selling Shareholders in the global offering; and (ii) the underwriting commissions and other expenses in connection with the global offering, the net proceeds received by the Company from the global offering were approximately HK\$2,560.3 million. The proceeds are intended to be utilised in the manner set out in the prospectus of the Company dated 28 November 2017.

As at 31 December 2017, HK\$2,014 million (equivalent to approximately RMB1,699.51 million) was settled to the Company's domestic accounts and had been collected in full together with the Company's existing proprietary assets for allocation to different assets classes, significantly increasing the Company's net capital.

MAJOR INVESTMENTS NOT FINANCED BY FUND-RAISING

For the year ended 31 December 2017, the Company did not have any major investment not financed by fund-raising.

BORROWINGS

The Company's borrowings as at 31 December 2017 amounted to approximately RMB328.0 million. Details of the borrowings are set out in note 32 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

Biographical details of Directors, Supervisors and Senior Management are set out in the section headed "Details of Directors, Supervisors and Senior Management" on pages 72 to 85 of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his independence for the period from the Listing Date to 31 December 2017 pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent pursuant to Rule 3.13 of the Listing Rules.

DIRECTORS AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

For the period from the Listing Date to 31 December 2017, none of the Directors or Supervisors directly or indirectly had any material interest in any material transaction, arrangement or contract in relation to the Company's business, to which the Company, any of its subsidiaries or fellow subsidiaries, if any, was a party.

REPORT OF THE BOARD OF DIRECTORS

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The distribution proposal of the remuneration of senior management shall be reviewed and approved in the Board meetings of the Company while the remuneration of Directors and Supervisors shall be reviewed and approved in the general meetings of the Company. For details of the detailed remuneration standards, please refer to “Details of Directors, Supervisors and Senior Management under the section headed “Annual Remuneration” in this annual report.

Under the remuneration policy of the Company, in assessing the amount of remuneration payable to the Director, Supervisors and senior management, the Human Resources and Nomination Committee and Remuneration Committee will consider factors such as the salaries paid by comparable companies and the tenure, commitment, responsibilities and performance of the Directors, Supervisors and the senior management (as the case may be).

TERMS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

According to the Articles of Association, the terms of service of both the Directors and the Supervisors are for three years, and all Directors and Supervisors are subject to reappointment or re-election upon the expiry of their term.

Each of the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors has entered into a service contract with a term of three years with the Company.

None of our Directors or Supervisors have entered into a service contract with the Company with a term specifying that if the Company terminates the contract within one year, the Company has to make compensation apart from statutory compensation.

Details of the remuneration of the Directors, Supervisors and the five highest paid individuals of the Company are set out in note 11 to the consolidated financial statements for this year.

DIRECTORS' INTERESTS IN BUSINESSES THAT COMPETE WITH THE BUSINESSES OF THE COMPANY

Mr. Xiao Hua, a non-executive Director of the Company, is also the chairman of Kunlun Trust, whose principal business is to manage assets as trustees for its clients in the PRC, competing with the businesses of the Company. Kunlun Trust is a non-wholly owned subsidiary of CNPC Assets Management, a substantial shareholder of the Company. Save as (i) the shareholding of CNPC Assets Management in the Company, (ii) Mr. Xiao Hua's directorship in the Company and Kunlun Trust and (iii) the positions held by Mr. Chen Yong, a Supervisor of the Company (who holds several positions in CNPC Assets Management and Kunlun Trust), the Company does not have any other relationship with CNPC Assets Management or Kunlun Trust. As such, the Directors are of the view that we are capable of carrying out our businesses independently from CNPC Assets Management and Kunlun Trust. In addition, the Company has adopted certain corporate governance measures to manage the conflict of interest arising from the competing interests of Mr. Xiao Hua.

REPORT OF THE BOARD OF DIRECTORS

Save as disclosed above, each of the Controlling Shareholders and Directors confirms that he, she or it does not have any interest in a business, apart from the business of the Company, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2017, none of the Directors, Supervisors, senior management or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or which they were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, during the period from the listing date to 31 December 2017, the Company had not been a party to any arrangement that would enable the Directors or Supervisors to benefit from the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, upon the approval at the general meeting of the Company, the Company may set up a professional liability insurance system for its Directors, Supervisors or senior management. A liability insurance has been in place to protect the Directors, Supervisors and senior management against any potential liability arising from the Company's businesses which such Directors, Supervisors or senior management may be held liable for.

During the reporting period, there has been no permitted indemnity provision, expired being in force, for the benefit at any of the Directors of the Company (whether made by the Company or not).

REPORT OF THE BOARD OF DIRECTORS

FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP BETWEEN MEMBERS OF THE BOARD OF THE COMPANY

Members of the Board of the Company had no relationship including financial, business, family or other material relationships, with each other.

MANAGEMENT CONTRACTS

Save as the service contracts of the senior management of the Company, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company have been entered into.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 2.12 to the consolidated financial statements.

EQUITY-LINKED AGREEMENT

For the period from the Listing Date to 31 December 2017, the Company had not entered into or renewed any equity-linked agreement.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

For details, please refer to the section headed "Changes in Share Capital and Shareholdings of Substantial Shareholders" in this annual report.

CONTINUING CONNECTED TRANSACTIONS

I. Continuing Connected Transactions Subject to the Annual Reporting and Announcement Requirements

The Company has entered into the following transactions. The transactions are made on normal commercial terms where, as the Directors currently expect, calculated on an annual basis, (i) the highest relevant "percentage ratio" (other than the profits ratio) calculated under Chapter 14A of the Listing Rules will be more than 0.1% but less than 5%, and (ii) the total consideration will be more than HK\$3,000,000, in each case calculated on an annual basis. Such transactions are to be exempted from the circular (including independent financial advice) and the independent shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules but are subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

1. *Property Management Service Agreements with Shandong Lucion Hengsheng Property Management Co., Ltd.*

The Company has entered into two property management service agreements dated 19 May 2017 and 16 November 2017, respectively, with Shandong Lucion Hengsheng Property Management Co., Ltd., whereby Shandong Lucion Hengsheng Property Management Co., Ltd. agreed to provide property management services to the office premises and staff's kitchen of the Company located at No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, PRC.

Shandong Lucion Hengsheng Property Management Co., Ltd., a non-wholly owned subsidiary of Lucion Group, is our Controlling Shareholder and hence a connected person of the Company under Chapter 14A of the Listing Rules.

The property management service agreement in relation to our office premises became effective retrospectively on 1 January 2017 and is valid for a term of three years. The property management service agreement in relation to our staff's kitchen became effective on 16 November 2017, is valid for a term of three years. The parties may agree to extend the agreements for a further three-year term. The property management service agreements were entered into on normal commercial terms.

2. *Trust Consulting Framework Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.*

The Company has entered into a trust consulting framework agreement with Shandong Taishan Culture Art Exchange Co., Ltd. on 16 November 2017, whereby the Company in its capacity as a trustee engaged Shandong Taishan Culture Art Exchange Co., Ltd. from time to time to provide consulting services in relation to a number of artwork investment collective trusts that were or would be managed by the Company.

Shandong Taishan Culture Art Exchange Co., Ltd., a 30% owned controlled company held by our Controlling Shareholder, Lucion Group, is a connected person of the Company under Chapter 14A of the Listing Rules.

The trust consulting framework agreement became effective on the Listing Date of the Company and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the term of the trust consulting framework agreement. The trust consulting framework agreement was entered into on normal commercial terms.

REPORT OF THE BOARD OF DIRECTORS

3. *Information Technology Service Framework Agreement with Lucion Science and Technology Co., Ltd.*

The Company has entered into an information technology service framework agreement with Lucion Science and Technology Co., Ltd. on 16 November 2017, whereby the Company engaged Lucion Science and Technology Co., Ltd. to provide information technology services to the Company, including system maintenance, research and development and consulting services in relation to information technology systems and administrative services involving information technology work. Lucion Science and Technology Co., Ltd. shall also assist the Company in the procurement of software and hardware equipment.

Lucion Science and Technology Co., Ltd., our Controlling Shareholder and a non-wholly owned subsidiary of Lucion Group, is a connected person of the Company under Chapter 14A of the Listing Rules.

The term of the information technology service framework agreement became effective on the listing date and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the term of the information technology service framework agreement.

4. *Placement Agency Framework Agreement with Kunlun Trust*

The Company has entered into a placement agency framework agreement with Kunlun Trust on 16 November 2017, whereby the Company in its capacity as a trustee engaged Kunlun Trust from time to time to act as our agent to place trust units of our collective trusts through its distribution channel to qualified investors.

Kunlun Trust, our substantial Shareholder and a non-wholly owned subsidiary of CNPC Assets Management, is a connected person of the Company under Chapter 14A of the Listing Rules.

The placement agency framework agreement became effective on the listing date and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the term of placement agency framework agreement. The placement agency framework agreement was entered into on normal commercial terms.

REPORT OF THE BOARD OF DIRECTORS

ii. Continuing Connected Transactions Subject to the Annual Reporting, Announcement, Circular and Independent Shareholders' Approval Requirements

The Company has entered into the following transactions. As the Directors currently expect, at least one of the relevant "percentage ratios" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be more than 5%, such transactions are subject to the annual reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. *Management of Assets Entrusted by CNPC Assets Management and/or its associates*

The Company has entered into a trust framework agreement with CNPC Assets Management on 16 November 2017, pursuant to which the Company and CNPC Assets Management (for itself and on behalf of its associates) agreed to conduct the CNPC Trust Transactions on normal commercial terms and in accordance with the pricing policy set out therein, and to provide trust services to CNPC Assets Management and its associates.

Since CNPC Assets Management is our substantial Shareholder, it is a connected person of the Company under Chapter 14A of the Listing Rules.

The trust framework agreement became effective on the listing date and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the trust framework agreement.

2. *Management of Assets Entrusted by Lucion Group and/or its associates*

The Company has entered into a trust framework agreement with Lucion Group on 16 November 2017, pursuant to which the Company and Lucion Group (for itself and on behalf of its associates) agreed to conduct the Lucion Trust Transactions on normal commercial terms and in accordance with the pricing policy set out therein, and to provide trust services to Lucion Group and its associates.

Since Lucion Group is our Controlling Shareholder, it is a connected person of the Company under Chapter 14A of the Listing Rules.

The trust framework agreement became effective on the listing date and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the term of the trust framework agreement.

REPORT OF THE BOARD OF DIRECTORS

3. *Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by the Company*

The Company has entered into a trust financing framework agreement with Lucion Group on 16 November 2017, pursuant to which the Company and Lucion Group (for itself and on behalf of its associates) agreed to conduct the Loan and Financing Transactions on normal commercial terms and in accordance with the pricing policy set out therein.

Since Lucion Group is our Controlling Shareholder, it is a connected person of the Company under Chapter 14A of the Listing Rules.

The trust financing framework agreement became effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for a further three-year term if an agreement is reached within two months before the expiry of the term of the trust financing framework agreement.

For the above non-exempt continuing connected transactions, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement requirement relating to continuing connected transaction under Rule 14A.35 of the Listing Rules in respect of the transactions described in “Continuing Connected Transactions – I. Continuing Connected Transactions Subject to the Annual Reporting and Announcement Requirements”, and a waiver from strict compliance with the announcement, circular and independent Shareholders’ approval requirements relating to the continuing connected transactions under Rules 14A.35, 14A.36, 14A.46 and 14A.53(3) of the Listing Rules in respect of the transactions described in “Continuing Connected Transactions – II. Continuing connected transactions subject to the annual reporting, announcement, circular and independent Shareholders’ approval requirements”.

For details of the above non-exempt connected transaction, please refer to the chapter headed “Connected Transactions” of the prospectus.

REPORT OF THE BOARD OF DIRECTORS

The following table sets forth the respective annual caps and actual amounts for the non-exempt continuing connected transactions of the Company for the year ended 31 December 2017:

Continuing connected transactions	Annual caps for the year ended 31 December 2017	Actual amounts for the year ended 31 December 2017
<i>(RMB in thousands)</i>		
I. Continuing connected transactions subject to the annual reporting and announcement requirements		
1. Property Management Service Agreements with Shandong Lucion Hengsheng Property Management Co., Ltd.	8,704	8,363
2. Trust Consulting Framework Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.	5,600	4,590
3. Information Technology Service Framework Agreement with Lucion Science and Technology Co., Ltd	12,000	10,349
4. Placement Agency Framework Agreement with Kunlun Trust	30,000	–
II. Continuing connected transactions subject to the annual reporting, announcement requirements, circular and independent shareholders' approval requirements		
1. Management of Assets Entrusted by CNPC Assets Management and/or its associates Trustee's remuneration to be received from the trusts of which CNPC Assets Management and its associates are trustors	54,000	–
Maximum outstanding balance of the assets and funds to be entrusted by CNPC Assets Management and its associates	6,000,000	–
2. Management of Asset Entrusted by Lucion Group and/or its associates Trustee's remuneration to be received from the trusts of which Lucion Group and/or its associates are trustors	123,000	87,732
Maximum outstanding balance of the assets and funds to be entrusted by Lucion Group and its associates	10,000,000	4,002,405
3. Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by the Company Trustee's remuneration to be received from the trusts providing financing to Lucion Group and its associates	60,000	37,477
Balance from trust assets (including interests accrued thereon) providing loans or financing to Lucion Group and its associates	15,000,000	9,263,415

REPORT OF THE BOARD OF DIRECTORS

Confirmation from independent non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions during the period from the listing date to 31 December 2017 and confirmed such transactions have been:

- (1) entered into in the ordinary and usual course of business of the Company;
- (2) entered into on normal or better commercial terms; and
- (3) conducted in accordance with the relevant agreement whose terms are fair and reasonable and in the interests of the Shareholders as a whole.

Letter from the auditor

The auditors of the Company have performed certain planned audit procedures for the above continuing connected transactions entered into by the Company for the year ended 31 December 2017, and concluded that such transactions:

- (1) have been approved by the Board ;
- (2) have followed the pricing policies of the Company in all material aspects;
- (3) were conducted in accordance with the relevant agreements for such transactions in all material aspects; and
- (4) have an aggregate amount not exceeding the relevant cap disclosed in the annual report.

Fully Exempt Continuing Connected Transactions

The Company has entered into the following transactions: (1) Trademark Licensing Agreement entered into with Lucion Group; (2) individual connected persons' personal investment in trusts managed by the Company; and (3) Framework Outdoor Advertising Agreement entered into with Shandong Lucion Advertisement Co., Ltd.. The transactions are made on normal commercial terms and are to be exempted from the annual reporting, annual review, announcement, circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For details on the above fully exempt continuing connected transactions, please refer to "Fully Exempt Continuing Connected Transactions" in the section headed "Connected Transactions" to the prospectus.

REPORT OF THE BOARD OF DIRECTORS

Related Party Transactions

Please refer to note 36 to the consolidated financial statements in this annual report for details of the significant related party transactions pursuant to IFRSs. For the connected transactions and continuing connected transactions pursuant to the requirements of the Listing Rules, please refer to the disclosure set out in this section. Save as disclosed in this section, other related party transactions disclosed in note 36 are not considered as connected transactions, or are exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

Lucion Group has undertaken to the Company on 16 November 2017 (the "**Non-competition Undertaking**"), that it, as a Controlling Shareholder, it will not and will procure its close associates (except for the Company and its subsidiaries (if any)) not to, carry on, engage in, invest in, participate in, attempt to participate in, provide any services to, provide any financial support to, or otherwise be involved or interested in any business which compete or are likely to compete, alone or with other persons, directly or indirectly, representing or assisting or acting in concert with other persons, with our businesses (the "**Restrained Businesses**") within the PRC.

The Non-competition Undertaking does not apply to (i) any shareholding in the Company and its subsidiaries (if any); (ii) the shareholdings of and the businesses operated by Lucion Venture Capital Group Co., Ltd. (which is listed on the Shanghai Stock Exchange) and Lucion Culture Venture Capital; and (iii) the holding of securities in a company that is engaged in the Restrained Businesses and whose securities are listed on any stock exchange, provided that Lucion Group or its close associates does not individually or in aggregate hold or control the voting rights in respect of 10% or more of its the issued share capital and does not have any right to control the composition of its the board of directors in any manner.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the reporting period, the Company has complied with the relevant laws and regulations which are material to its business and operation in all material respects, and has obtained all material qualifications and permits necessary for its operation in accordance with relevant laws and regulations.

ENVIRONMENTAL POLICY

Environmental protection is a collective responsibility for every member of the society. The Company is committed to enhancing our environmental performance and raising the environmental awareness of the relevant stakeholders. To minimise the impact of our business operations on the environment, the Company has adopted measures to reduce the consumption of energy and natural resources, to reduce waste, and to use environmentally friendly products and materials if possible.

Pursuant to Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance ("**ESG**") Report within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2017 and the financial statements for the year ended 31 December 2017 prepared in accordance with the IFRS.

AUDITOR

PricewaterhouseCoopers was appointed as the auditor to audit the financial statements for the year ended 31 December 2017 prepared in accordance with the IFRS. The enclosed consolidated financial statements prepared in accordance with the IFRS have been audited by PricewaterhouseCoopers. The Company has retained PricewaterhouseCoopers since the date of preparation of its listing. PricewaterhouseCoopers will retire as the Company's auditor at the end of the forthcoming shareholders' annual general meeting of the Company and, being eligible, will offer themselves for re-appointment. A resolution will be proposed for approval by Shareholders at the forthcoming shareholders' annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the Company's auditor for the year ending 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

The Company had no significant events after the reporting period.

By order of the Board
Chairman of the Board
Wang Yingli

22 March 2018

REPORT OF THE BOARD OF SUPERVISORS

COMPOSITION OF THE BOARD OF SUPERVISORS

As at the end of reporting period, our Board of Supervisors comprises nine members. Pursuant to the Articles of Association, at least one-third of our Supervisors must be employee representatives elected by the employees. Mr. Tian Zhiguo, Ms. Li Aiping and Mr. Zuo Hui are elected by our employees. While the other Supervisors are elected and appointed by our Shareholders at the general meeting. Each of the Supervisors elected by our employees or by our Shareholders is appointed for a term of three years, which is renewable upon re-election and re-appointment.

For details of the incumbent Supervisors, please refer to the section headed “Directors, Supervisors and Senior Management” in this annual report.

FUNCTIONS AND AUTHORITIES AND OPERATION OF THE BOARD OF SUPERVISORS

Pursuant to the Articles of Association, the functions and powers of the Board of Supervisors include, among other things:

- (1) to examine the financial conditions of the Company, understand the operations of the Company, and undertake the corresponding obligations of confidentiality, and the Board of Supervisors may, in the name of the Company, engage an accounting firm to independently examine the financial conditions of the Company, if necessary;
- (2) to supervise the performance of duties by the directors and senior management members of the Company and to propose the removal of Directors and senior management members who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general meeting;
- (3) to urge Directors and senior management members of the Company to rectify their acts which impair the interests of the Company;
- (4) to propose to convene an extraordinary general meeting, and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meeting as stipulated by the PRC Company Law;
- (5) to put forward proposals at the general meetings;
- (6) to negotiate with Directors and senior management of the Company on behalf of the Company, or to initiate lawsuits against Directors and senior management of the Company in accordance with the PRC Company Law;
- (7) to be entitled to require Directors or senior management to attend meetings of the Board of Supervisors to answer questions;
- (8) verify financial information such as financial reports, business reports and profit distribution plans that the Board intends to submit to the general meeting and, in case any problem is identified, to be able to appoint, in the name of the Company, a registered accountant or practicing auditor to assist in reviewing such information, and the expenses shall be borne by the Company;

REPORT OF THE BOARD OF SUPERVISORS

- (9) to elect the chairperson of the Board of Supervisors;
- (10) formulate the procedural rule for the Board of Supervisors; and
- (11) other functions and powers provided by applicable laws, regulations and the Articles of Association.

MEETING OF THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors had held 1 meeting and considered and approved two proposals, including the 2016 Work Report of the Board of Supervisors of Shandong International Trust Co., Ltd. and the Resolution on Formulating Interim Measures for Evaluation and Supervision of the Performance of Duties of Directors, Supervisors and Senior Management by the Board of Supervisors of Shandong International Trust Co., Ltd. (Trial).

The attendance of the Supervisors of the Company at meetings of the Board of Supervisors during the reporting period is listed below:

Supervisors	Number of attendance in person ¹ /meetings requiring attendance	
	Board of Supervisors	
Yang Gongmin	1	1/1
Wang Yuepu	0	0/1
Hou Zhenkai	1	1/1
Chen Yong	1	1/1
Wu Chen	1	1/1
Tian Zhiguo	1	1/1
Zuo Hui	1	1/1
Li Aiping	1	1/1
Guan Wei	1	1/1

Notes:

- (1) Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference.
- (2) Supervisors who could not attend the meetings of the Board of Supervisors but had appointed other Supervisors to attend the meetings and exercise the voting right on their behalf.

REPORT OF THE BOARD OF SUPERVISORS

WORK OF BOARD OF SUPERVISORS

During the reporting period, with a view to be committed to the Shareholders and the Company, the Board of Supervisors has diligently performed its duties of supervision pursuant to applicable laws and regulations and the Articles of Association. The Board of Supervisors strived to explore supervisory methods to improve its effectiveness so as to protect the interests of the Shareholders and the Company to further exercise its supervisory and counter balancing further under the corporate governance of the Company.

Performance Supervision

By attending meetings of the Board and its special committees, General Manager's Office meetings and other relevant meetings, the Board of Supervisors strengthened its supervision over Directors, Supervisors and senior management's lawful operation and decision-making procedures for major issues, get informed of decisions of the Company and information about operation and management. It also reinforced its supervision over Directors, Supervisors, senior management as well as the execution of resolutions of the Shareholders, the Board and the Board of Supervisors by carrying out investigations and studies, conducting visits and interviews and analysing relevant information. Pursuant to the relevant regulatory requirements, it conducted annual performance reviews, and issued evaluation reports on the performance of Directors, Supervisors and senior management.

Financial Supervision

The Board of Supervisors supervised the regular periodic with the focus on truthfulness, accuracy and completeness of the financial reports, reviewed the annual audit plan and its implementation report and guided external audit work.

Internal Control Supervision

The Board of Supervisors closely monitored the establishment and implementation of the internal control system, the problems identified during the internal audit and the implementation of the rectification of such problems identified.

Risk Supervision

The Board of Supervisors was particularly focused on a sound and organised implementation of the Company's risk management system, providing relevant opinions and suggestions on the implementation of the risk prevention and control work and improving and perfecting the risk management system.

Internal Matters

Under the changes to regulatory policies and the Company's development needs, the Board of Supervisors continuously improved its work competence and level of supervision through trainings, workplace communication and self-study, and monitored the performance of Supervisors by conducting annual performance reviews.

REPORT OF THE BOARD OF SUPERVISORS

INDEPENDENT OPINIONS ISSUED BY THE BOARD OF SUPERVISORS

In accordance with the Articles of Association, the Board of Supervisors for the year 2017 has discharged its supervisory duties against the performance of the Board and senior management of the Company. Comments on the relevant issues are as follows:

Opinions on the performance review of Directors and senior management of the Company

The composition of the Board meets the requirements on corporate governance of trust companies as under both domestic and overseas regulations. The Directors are qualified for their positions and have a diversity of professional backgrounds, offers greater complementarity and possesses independent and professional judgement. During the reporting period, the Board and each committee strictly have complied with requirements of the Articles of Association, terms of reference for the Board and each committee and the Listing Rules, conducted operations in accordance with applicable laws and regulations, improved corporate governance structure continuously, and executed resolutions of the Shareholders' general meeting. There were no behaviors that have breached applicable laws and regulations and harmed the interest of Shareholders during the reporting period.

During the reporting period, the senior management of the Company paid great efforts, duly performed their roles and pragmatically executed each resolution passed at the Shareholders' general meetings and Board meetings. They have not act against the laws, regulations and the Articles of Association nor prejudiced the interests of the Company.

FINANCIAL REPORT

The financial report for the year ended 31 December 2017 reflects a fair, true and complete view of the Company's financial position and operating results.

RELEVANT ADVICE AND WORK PLAN FOR THE YEAR 2018

In 2018, the Board of Supervisors and each Supervisor will the follow the PRC Company Law, the Guidelines for Governance of Trust Companies and the Articles of Association, centring around the operating objectives and major tasks of the Company in 2018. The Board of Supervisors, together with its members, will continue to improve on its ability of work and level of supervision, proactively diversifying its mindset and diligently perform its duties, thereby helping the Company improve the corporate governance structure and the internal risk control, level insist on operations in compliance with applicable laws and regulations, safeguard the interest of the Company and its Shareholders and realise sustainable and healthy development.

Save as disclosed above, the Board of Supervisors had no objection to other supervisory issues during the reporting period.

By order of the Board of Supervisors
Chairperson of the Board of Supervisors
Yang Gongmin

22 March 2018

SIGNIFICANT EVENTS

CHANGE OF REGISTERED CAPITAL, CHANGE OF PLACE OF REGISTRATION OR COMPANY NAME, MERGER/DIVISION OF THE COMPANY

During the reporting period, immediately after the completion of the global offering, the issued share capital of the Company increased from RMB2,000,000,000 to RMB2,588,250,000. Therefore, the registered capital shall be changed correspondingly. The Company has obtained approval from the Shandong Office of CBRC in relation to the increase in registered capital of the Company. Upon consideration and approval at the annual general meeting, the Company will apply for registration with authorities for industry and commence administration in relation to the change of registered capital. In addition, in 2017, the Company neither changed its registered capital nor changed the place of registration or the name of the Company or merger/division of the Company.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATION

As at 31 December 2017, we, being the plaintiff and applicant, were involved in six pending material litigations and arbitration cases involving an amount of more than RMB10 million for the dispute, the value of the litigations in which we were involved totalled approximately RMB931.8 million. These litigations were mainly brought by us against the relevant counterparty clients due to their failure to repay the loans granted by our trusts.

As at 31 December 2017, the Company, being the defendant, was involved in one pending litigation, of which the amount in dispute was more than RMB10 million, and involved in one pending litigation as an interested third party, of which the amount in dispute was more than RMB10 million, the value of the litigations in which the Company was involved approximately RMB143.4 million and RMB251.9 million, respectively. The Company believes that these claims or potential claim by the plaintiffs against the Company are frivolous, therefore, the Company did not make any provision in connection with these litigations. The Directors do not expect such legal proceedings to have, individually or in aggregate, a material adverse effect on the Company's financial condition or results of operations.

MATERIAL ASSETS ACQUISITION, SALE AND MERGER

During the reporting period, the Company had no material assets acquisition, sale and merger.

PENALTIES IMPOSED ON THE COMPANY AND DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OF THE COMPANY

On 26 December 2017, the Shandong Office of CBRC issued a decision notice of administrative penalties titled Lu Yin Jian Jue Zi [2017] No. 26), informing us that penalties of RMB0.4 million was imposed on us, due to (i) our illegal action to provide financing to real estate enterprises that do not meet the loan conditions; and (ii) parts of the government financing platform business are instead secured by local government. As at the date of this annual report, the Company has fully paid the penalty.

SIGNIFICANT EVENTS

RECTIFICATION OPINIONS MADE TO THE COMPANY BY CBRC AND ITS BUREAUS AFTER INSPECTION.

During the reporting period, the Shandong Office of CBRC has issued inspection reports on the following dates: (i) 22 June 2017 based on its ad hoc inspection from 14 April to 28 April 2017 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of "Regulatory Arbitrage, Idle Arbitrage and Affiliate Arbitrage" in the Banking Industry (中國銀監會辦公廳關於開展銀行業“監管套利、空轉套利、關聯套利”行為專項治理工作的通知), (ii) 22 June 2017 based on its ad hoc inspection from 14 April 2017 to 28 April 2017 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of Violation of Laws, Regulations and Rules in the Banking Industry (中國銀監會辦公廳關於開展銀行業“違法、違規、違章”行為專項治理工作的通知) and (iii) 7 August 2017 based on its ad hoc inspection from May to June 2017 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of "Inappropriate Innovation, Inappropriate Transaction, Inappropriate Incentive, Inappropriate Fee" in the Banking Industry (中國銀監會辦公廳關於開展銀行業“不當創新、不當交易、不當激勵、不當收費”專項治理工作的通知). The Company has formulated rectification plans targeted at the problems identified in the inspection reports and improved the system set-up, optimised business flow and carried out internal accountability, all of which have made positive progress.

PROVISIONAL REPORT ON MATERIAL ISSUES

During the reporting period, no provisional report in connection with material issues was made by the Company.

IMPORTANT INFORMATION WHICH THE CBRC AND ITS PROVINCIAL OFFICES CONSIDERED NECESSARY TO INFORM CLIENTS AND STAKEHOLDERS

Save as disclosed in this annual report, for the year ended 31 December 2017, the Company did not have other important information which the CBRC and its provincial offices considered necessary to inform clients and stakeholders.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS AS REQUIRED BY CBRC

"Substantial Shareholders" mentioned in this section are Shareholders who hold or control more than 5% of the Shares or voting rights of the Company or who hold less than 5% of the total capital or total share capital but have a material impact on the operation and management of the Company. "Material Impact" means, including but not limited to the nomination of Directors, Supervisors or senior management of the Company, affecting the decision-making of finance, operation and management of the Company by way of agreements or other shares, and other circumstances recognised by the CSRC or its designated authorities.

Lucion Group

Lucion Group, established in the PRC in January 2002, is currently owned as to 70% by Shandong Provincial State-owned Assets and Administration Commission and as to 30% Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會). Its legal representative is Ji Binchang. It has a registered capital of RMB3 billion, and its registered address is No.166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC. Lucion Group is an investment holding company, which is principally engaged in financial and industrial investment, asset management services, investment consultancy services and property and hotel management.

According to the information provided to the Company by Lucion Group, as at 31 December 2017, the basic information of the enterprises directly held by Lucion Group is as follows:

Number	Name of enterprises	Shareholding ratio of Lucion Group (%)
1	Shandong Lucion Industrial Co., Ltd. (山東魯信實業集團有限公司)	63.64
2	Shandong Lucion Investment Group Co., Ltd. (山東魯信投資集團股份有限公司)	74.37
3	Lucion Venture Capital Group Co., Ltd. (魯信創業投資集團股份有限公司) ⁽¹⁾	68.53
4	Shandong Lucion Culture and Media Investment Group Co., Ltd. (山東魯信文化傳媒投資集團有限公司)	66.77
5	Shandong Lucion Financial Holding Company Limited (山東省魯信金融控股有限公司)	85.71
6	Shandong Financial Assets Management Co., Ltd. (山東省金融資產管理股份有限公司)	45.15
7	Shandong Oil and Gas Company Limited (山東石油天然氣股份有限公司)	29.45
8	Lucion Science and Technology Co., Ltd. (魯信科技股份有限公司)	40.00
9	Shandong Lucion Tianyi Printing Company Limited (山東魯信天一印務有限公司)	67.50
10	China Shandong Investment Limited (魯信投資有限公司)	100.00
11	Lucion Overseas Investment Company Limited (魯信海外投資有限公司)	67.50
12	Shandong Investment Company Limited (山東省投資有限公司)	100.00

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number	Name of enterprises	Shareholding ratio of Lucion Group (%)
13	Lucion Asset Management Company Limited (魯信資本管理有限公司)	35.00
14	Shandong Lucion Energy Investment and Management Company Limited (山東魯信能源投資管理股份有限公司)	58.82
15	Shandong Lucion Culture Industrial Venture Capital Co., Ltd. (山東魯信文化產業創業投資有限公司)	60.00
16	Shandong Zhonglu Oceanic Fishery Company Limited (山東省中魯遠洋漁業股份有限公司) ⁽²⁾	33.07
17	Qilu Stock Exchange Center Co., Ltd. (齊魯股權交易中心有限公司)	24.89
18	Jinan Rural Commercial Bank Company Limited (濟南農村商業銀行股份有限公司)	10.00
19	Qingdao OTC Market Clearance Centre Company Limited (青島場外市場清算中心有限公司)	30.00
20	Qilu Rural Property Rights Exchange Center Co., Ltd. (齊魯農村產權交易中心有限責任公司)	25.00
21	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司)	4.43
22	Minsheng Securities Co., Ltd (民生證券股份有限公司)	3.54
23	Shandong Lixin Property Investment and Development Company Limited (山東魯信房地產投資開發有限公司)	49.00
24	Anhui Lucion Investment Company Limited (安徽魯信投資有限公司)	19.00
25	Guotou Julu Investment Management Company Limited (國投聚力投資管理有限公司)	3.47
26	Shandong Lucion Hengji Investment Co., Ltd. (山東魯信恒基投資有限公司)	100.00
27	US Zhongmei Zhetong Company Limited (美國中美捷通公司)	45.00
28	Lugang Shipping Industry Company Limited (魯港海運實業公司)	50.00
29	Yantai Huabao Metal Company Limited (煙台華寶五金公司)	20.00
30	Shandong Boxinda Trading Company Limited (山東博信達貿易有限公司)	80.00

Notes:

- (1) Lucion Venture Capital Group Co., Ltd. is a company listed on the Shanghai Stock Exchange (stock code: 600783).
- (2) Shandong Zhonglu Oceanic Fishery Company Limited is a B share company listed on the Shenzhen Stock Exchange (stock code: 200992).

As at 31 December 2017, Lucion Group held 1,344,668,100 Domestic Shares of the Company directly and indirectly through its controlled company, representing 51.95% of the total share capital of the Company. During the reporting period, Wang Yingli and Jin Tongshui, Directors of the Company, and Hou Zhenkai, a Supervisor of the Company, were nominated by Lucion Group.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

State-owned Assets Supervision and Administration Commission of Shandong Provincial Government

State-owned Assets Supervision and Administration Commission of Shandong Provincial Government, was established in 2009 and is a direct special institution of the Shandong government. Authorised by the provisional government, it acted as an investor and regulated provincial state-owned enterprises and improved the work on state-owned asset management pursuant to the PRC Company Law, the State-owned Asset Law of the PRC and other applicable laws and regulations.

As at 31 December 2017, State-owned Assets Supervision and Administration Commission of Shandong Provincial Government held 70% shares in Lucion Group.

CNPC Assets Management

CNPC Assets Management was established in the PRC in April 2000 as a wholly-owned subsidiary of CNPC Capital Company Limited, a wholly-owned subsidiary of CNPC Capital Company Limited By Shares which is an A share listed company whose controlling shareholder is China National Petroleum Corporation (中國石油天然氣集團有限公司), the largest oil and gas producer and supplier in the PRC and a limited liability company (wholly state-owned). Its legal representative is Xiao Hua, with a registered capital of RMB13,725,180,496.26 and its registered address is No. 9 Beidajie Street, Dongzhimen, Dongcheng District, Beijing, the PRC. CNPC Assets Management is principally engaged in investment and asset management.

According to the information provided to the Company by CNPC Asset Management, as at 31 December 2017, the basic information of the enterprises directly held by CNPC Assets Management is as follows:

Number	Name of enterprises	Shareholding ratio of CNPC Assets Management (%)
1	Kunlun Trust Co., Ltd. (昆侖信託有限責任公司)	82.18
2	Huaneng Investment and Management Co., Ltd. (華能投資管理有限公司)	25.00
3	Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) (寧波昆侖信元股權投資管理合夥企業(有限合夥))	1.00
4	Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司)	3.96
5	Heilongjiang Longmay Mining Holding Group Co., Ltd. (黑龍江龍煤礦業集團股份有限公司)	0.76
6	Open Union Information Technology Corporation (開聯信息技術有限公司)	19.97

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

As at 31 December 2017, CNPC Assets Management held 485,293,750 Domestic Shares in the Company, representing 18.75% of the total share capital of the Company. During the reporting period, Xiao Hua, a Director of the Company, and Chen Yong, a Supervisor of the Company, were nominated by CNPC Assets Management Co., Ltd.

CNPC Capital Company Limited, CNPC Capital Company Limited By Shares and China National Petroleum Corporation

CNPC Capital Company Limited, established in the PRC in May 1997, is currently wholly-owned by CNPC Capital Company Limited By Shares. The legal representative is Jiang Shangjun, and the registered capital is RMB14,198,710.01986 thousand. The registered address is Room 504, 5/F, Block A, Jinyaguang Building, 1 Jinrong Street, Xicheng District, Beijing. It is principally engaged in investment management.

CNPC Capital Company Limited By Shares, established in the PRC in October 1996, is a company listed on the Shenzhen Stock Exchange. The legal representative is Jiang Shangjun, and the registered capital is RMB9,030.056485 million. The registered address is No. 7, Xinjiang Century Road, Karamay City. It is principally engaged in foreign investment with its own funds, investment management, investment consulting services, corporate planning and corporate investment services.

China National Petroleum Corporation, established in the PRC in February 1990, is a state-owned sole proprietorship enterprise established by the State-owned Assets Supervision and Administration Commission of the State Council. The legal representative is Wang Yilin, and the registered capital is RMB486,900 million. The registered address is Liupukang, Xicheng District, Beijing. China National Petroleum Corporation is an integrated international energy company with production, refinement, transportation, sale, storage and trading. It is principally engaged domestic and overseas oil and gas exploration and development, oil refinement and chemical engineering sale of oil and gas, channel transportation, international trading, engineering and technical services, construction, equipment manufacturing, financial services and new energy development.

As at 31 December 2017, CNPC Assets Management is a direct wholly-owned subsidiary of CNPC Capital Company Limited. CNPC Capital Company Limited is wholly-owned by CNPC Capital Company Limited By Shares, and CNPC Capital Company Limited By Shares is held as to 77.35% equity interests by China National Petroleum Corporation.

Jinan Finance Holding Group Co., Ltd.

Jinan Finance Holding Group Co., Ltd., established in May 2013, is a municipal first class enterprise and a liability state-owned company as approved to be established by Jinan Municipal Party Committee and State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government. It is wholly-owned by Jinan City State-owned Assets Supervision and Administration Commission, which acts as an investor for and on behalf of the municipal government. Its legal representative is Wang Yuzhu, its registered capital is RMB4,154.00 million, and its registered address is 11/F, Building No.2, Zhongrun Century Center, No. 12111 Jingshi Road, Lixia District, Jinan, Shandong Province, the PRC. Jinan Finance Holding Group Co., Ltd. is principally engaged in asset investment, consulting, management and operation of state-owned assets as authorised by the government, capital operation and assets management; provision of information to the general public and ancillary services relating to financing facility, serving as the information agency or information platform within the approved areas.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

According to the information provided to the Company by Jinan Finance Holding Group Co., Ltd., as at 31 December 2017, the basic information of the enterprises directly held by Jinan Finance Holding Group Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Jinan Finance Holding Group Co., Ltd (%)
1	Jinan Financial Technology Investment Co., Ltd. (濟南市財金科技投資有限公司)	100.00
2	Jinan Financial Industry Information Investment Co., Ltd. (濟南財金工信投資有限公司)	100.00
3	Jinan Cultural Industry Investment Co., Ltd. (濟南文化產業投資有限公司)	100.00
4	Jinan Financial Holding Venture Capital Co., Ltd. (濟南金控創業投資有限公司)	100.00
5	Jinan Equity Investment Fund Co., Ltd. (濟南市股權投資母基金有限公司)	100.00
6	Jinan Financing Guarantee Co., Ltd. (濟南市融資擔保有限公司)	100.00
7	Jinan Financial Holding Asset Operating Co., Ltd. (濟南金控資產運營有限公司) ⁽¹⁾	100.00
8	Jinan Finance Investment Management Co., Ltd. (濟南財金投資管理有限公司)	100.00
9	Jinan Financial Holding Factoring Co., Ltd. (濟南金控商業保理有限公司)	100.00
10	Jinan Technology Risk Investment Co., Ltd. (濟南科技風險投資有限公司)	52.50
11	Jinan Financial Holding Asset Management Co., Ltd. (濟南金控資產管理有限公司)	51.00
12	Jinan Finance Investment Co., Ltd. (濟南財金投資有限公司)	31.70
13	Shandong Financial Assets Exchange Co., Ltd. (山東金融資產交易中心有限公司)	30.00
14	Jinan Finance Agricultural Technology Financing Guarantee Co., Ltd. (濟南財金農業科技融資擔保有限公司)	20.00
15	Jinan Finance Shanty Town Renovation Investment Co., Ltd. (濟南財金棚改投資有限公司)	20.00
16	Jinan International Airport Co., Ltd. (濟南國際機場股份有限公司)	7.03
17	Shandong Railway Construction Investment Co., Ltd. (山東鐵路建設投資有限公司)	4.90
18	Shandong Re-Guarantee Group Co., Ltd. (山東省再擔保集團股份有限公司)	3.81
19	Jinan Financial Investment Development Fund Partnership (Limited Partnership) (濟南財金投資發展基金合夥企業(有限合夥))	2.50
20	Jinan Qilu Stock Exchange Center Co., Ltd. (濟南齊魯股權交易中心有限公司)	2.00

Note :

- (1) On 10 January 2018, Jinan Finance Agricultural Investment Co., Ltd. (濟南市財金農業投資有限公司) was renamed to Jinan Financial Holding Asset Operating Co., Ltd. (濟南金控資產運營有限公司) under the industrial and commercial registration of changes.

As at 31 December 2017, Jinan Finance Holding Group Co., Ltd. held 140,425,000 H Shares of the Company, representing 5.43% of the total share capital of the Company.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government

State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government, established in September 2004, is a direct working department of the Jinan municipal government. Its major functions are to perform duties as an investor, to regulate the state-owned assets of municipal enterprises, and to undertake the responsibility of maintaining and enhancing the value of state-owned assets.

As at 31 December 2017, State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government held 100% shares of Jinan Finance Holding Group Co., Ltd.

Qingdao Global Wealth Center Development and Construction Co., Ltd.

Qingdao Global Wealth Center Development and Construction Co., Ltd., established in the PRC in June 2010, is a wholly state-owned enterprise solely held by Qingdao Laoshan District Finance Bureau of Qingdao province, being the investor. Its legal representative is Chu Yankun, its registered capital is RMB3,197.74 million, and its registered address is Room 2715, Qingdao Financial Center, No. 15 Miaoling Road, Laoshan District, Qingdao, Shandong Province. Qingdao Global Wealth Center Development and Construction Co., Ltd. is principally engaged in land development, construction and investment, real estate development and operation and state-owned asset operation and capital operation.

According to the information provided to the Company by Qingdao Global Wealth Center Development and Construction Co., Ltd., as at 31 December 2017, the basic information of enterprises directly held by Qingdao Global Wealth Center Development and Construction Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Qingdao Global Wealth Center Development and Construction Co., Ltd. (%)
1	Qingdao Huilong Huaze Investment Co., Ltd. (青島匯隆華澤投資有限公司)	100.00
2	Qingdao Haoji Asset Management Co., Ltd. (青島浩基資產管理有限公司)	100.00
3	Qingdao Ruidatong Investment Consulting Co., Ltd. (青島睿達通投資諮詢有限公司)	100.00
4	Qingdao Guoxin Wealth Asset Management Co., Ltd. (青島國鑫財富資產管理有限公司)	100.00
5	Qingdao Shunyiitong Investment Consulting Co., Ltd. (青島順怡通投資諮詢有限公司)	100.00
6	Qingdao Shiyuda Investment Consulting Co., Ltd. (青島世譽達投資諮詢有限公司)	100.00
7	Qingdao Ruichangcheng Investment Consulting Co., Ltd. (青島瑞昌誠投資諮詢有限公司)	100.00
8	Qingdao Laoshan Harbour Investment Co., Ltd. (青島嶗山海港投資有限公司)	100.00
9	Qingdao Wealth Products Exchange Center Co., Ltd. (青島財富產品交易中心有限公司)	100.00
10	Qingdao Guofu Financial Assets Exchange Center Co., Ltd. (青島國富金融資產交易中心有限公司)	20.00

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number	Name of enterprises	Shareholding ratio of Qingdao Global Wealth Center Development and Construction Co., Ltd. (%)
11	Qingdao Software Exchange Software and Information Service Exchange Center Co., Ltd. (青島軟交所軟件和信息服務交易中心有限公司)	17.04
12	Qingdao Haoqiao Fangmu Culture Communication Co., Ltd. (青島灑橋方木文化傳播有限公司)	40.00
13	Shandong Financial Assets Exchange Co., Ltd. (山東金融資產交易中心有限公司)	10.00
14	Qingdao Lanhai Equity Exchange Co., Ltd. (青島藍海股權交易中心有限責任公司)	20.00
15	Qingdao Light Control Low Carbon New Energy Equity Investment Co., Ltd. (青島光控低碳新能股權投資有限公司)	7.69
16	Qingdao GoldStone Hongxin Investment Centre (Limited Partnership) (青島金石泓信投資中心(有限合夥))	12.05
17	Qingdao Dongrun Venture Investment Center (Limited Partnership) (青島東潤創業投資中心(有限合夥))	33.33

As at 31 December 2017, Qingdao Global Wealth Center Development and Construction Co., Ltd. held 130,900,000 H Shares of the Company, representing 5.06% of the total share capital of the Company.

Qingdao Laoshan District Finance Bureau

Qingdao Laoshan District Finance Bureau, established in May 1999, is a department under the control of Laoshan government. It is mainly engaged in the centralised management of the financial revenue of Laoshan District, the organisation of finance construction for the district and other relevant tasks.

As at 31 December 2017, Qingdao Laoshan District Finance Bureau held 100% equity interests of Qingdao Global Wealth Center Development and Construction Co., Ltd.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Shandong High-Tech Venture Capital Co., Ltd.

Shandong High-Tech Venture Capital Co., Ltd., established in the PRC in June 2000, is wholly-owned and established by Lucion Venture Capital Group Co., Ltd., a subsidiary of Lucion Group. The legal representative is Wang Biao, and the registered capital is RMB1,165.72 million. The registered address is No. 166 Jiefang Road, Jinan Municipal. It is mainly engaged in entrepreneurship investment.

According to the information provided to the Company by Shandong High-Tech Venture Capital Co., Ltd. as at 31 December 2017, the basic information of the enterprises directly held by Shandong High-Tech Venture Capital Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Shandong High- Tech Venture Capital Co., Ltd. (%)
1	Shandong New Beiyang Information Technology Co., Ltd. (山東新北洋信息技術股份有限公司) ⁽¹⁾	3.48
2	Tongyu Heavy Industry Co., Ltd. (通裕重工股份有限公司) ⁽²⁾	8.18
3	Minsheng Securities Co., Ltd (民生證券股份有限公司)	4.54
4	Weihai Huadong Numerical Control Co., Ltd. (威海華東數控股份有限公司) ⁽³⁾	7.82
5	Huabang Life Health Co., Ltd. (華邦生命健康股份有限公司) ⁽⁴⁾	0.48
6	Shandong Polymer Bio-chemicals Co., Ltd. (山東寶莫生物化工股份有限公司) ⁽⁵⁾	0.22
7	Shandong Longlive Bio-Technology Co., Ltd. (山東龍力生物科技股份有限公司) ⁽⁶⁾	10.14
8	Taihua Intelligence Industry Group Co., Ltd. (泰華智慧產業集團股份有限公司)	14.52
9	Shandong Dongyue Fluorosilicone Material Company Limited (山東東嶽氟矽材料有限公司)	16.78
10	Weifang Tengda Technology Co., Ltd. (濰坊勝達科技股份有限公司)	18.00
11	Shandong Tianyi Chemicals Co., Ltd. (山東天一化學股份有限公司)	25.34
12	Zhongchuang Software Commercial Middleware Co., Ltd. (中創軟件商用中間件股份有限公司)	24.29
13	Shandong Bunse Elevator Co., Ltd. (山東奔速電梯股份有限公司)	18.65
14	Shandong Liancheng Precision Manufacturing Co., Ltd. (山東聯誠精密製造股份有限公司) ⁽⁷⁾	8.27
15	Zibo High-Tech Venture Capital Co., Ltd. (淄博市高新技術創業投資有限公司)	40.00
16	Shandong Mingren Freda Pharmaceutical Co., Ltd. (山東明仁福瑞達製藥股份有限公司)	4.29
17	Yantai Xinghua Spandex Co., Ltd. (煙台星華氨綸有限公司)	20.00
18	Xin Feng Guang Electronic Technology Co., Ltd. (新風光電子科技股份有限公司)	9.80
19	Shandong Kehui Power Automation Co., Ltd. (山東科匯電力自動化股份有限公司)	7.36
20	Weifang Lucion Houyuan Venture Capital Management Co., Ltd. (濰坊魯信厚遠創業投資管理有限公司)	35.00
21	Shandong Shanda Wit Science and Technology Co., Ltd. (山東山大華天科技集團股份有限公司)	7.50
22	Xinjiang GF Lucion Equity Investment Co., Ltd. (新疆廣發魯信股權投資有限公司)	49.00
23	Shandong Lucion Kangda Investment Management Co. Ltd. (山東魯信康大投資管理有限公司)	35.00
24	Shandong Hong Ao Electric Science and Technology Co., Ltd. (山東泓奧電力科技有限公司)	19.86
25	Beijing Xinwei Technology Group Co., Ltd. (北京信威科技集團股份有限公司) ⁽⁸⁾	0.14

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number	Name of enterprises	Shareholding ratio of Shandong High- Tech Venture Capital Co., Ltd. (%)
26	Shandong Yuanda Special Material Co., Ltd. (山東遠大特材科技股份有限公司)	13.82
27	Shandong Technology Venture Capital Co., Ltd. (山東省科技創業投資有限公司)	76.00
28	Shandong Ouhua Egg Industry Co., Ltd. (山東歐華蛋業有限公司)	45.34
29	Yantai Gaoying Technology Co., Ltd. (煙台高盈科技有限公司)	42.43
30	Shandong Golding Electronics Material Co., Ltd. (山東金鼎電子材料有限公司)	6.25
31	Shandong Hongyi Technology Co., Ltd. (山東宏藝科技股份有限公司)	4.38
32	Shandong Huaxia Teauni Information Technology Co., Ltd. (山東華夏茶聯信息科技有限公司)	10.26
33	Shandong Inspur Huaguang Optoelectronics Co., Ltd. (山東浪潮華光光電子股份有限公司)	1.99
34	Shandong Peiport Electric Power Science & Technology Co., Ltd. (山東彼岸電力科技有限公司)	11.43
35	Shandong Innovation and Venture Capital Co., Ltd. (山東省創新創業投資有限公司)	10.71
36	Qingdao Huicheng Environmental Technology Co., Ltd. (青島惠城環保科技股份有限公司)	4.63
37	Weifang Lucion Houyuan Venture Capital Center (LLP) (濰坊魯信厚源創業投資中心(有限合夥))	1.20
38	Shandong Huaguang Optoelectronic Co., Ltd. (山東華光光電子有限公司)	1.66
39	Beijing Teauni Technology Co., Ltd. (北京茶聯科技股份有限公司)	9.23
40	Zibo Lucion Qilu Finance Management Co., Ltd. (淄博魯信齊魯財務管理有限公司)	35.00
41	Qingdao Lucion Chicheng Venture Capital Management Co., Ltd. (青島魯信馳騁創業投資管理有限公司)	35.00
42	Shandong Freda Biotechnology Co., Ltd. (山東福瑞達生物科技股份有限公司)	27.76
43	Laizhou Mingbo Aquatic Co., Ltd. (萊州明波水產有限公司)	15.00
44	Shandong Shuanglun Co., Ltd. (山東雙輪股份有限公司)	15.09
45	Shandong Gaoxin Runong Chemistry Co., Ltd. (山東高新潤農化學有限公司)	16.42
46	Yantai Qinghu Electronics Co., Ltd. (煙台青湖電子股份有限公司)	35.50
47	Weihai Lianxin Investment Co., Ltd. (威海聯信投資有限公司)	49.00
48	Shandong Huaxin Semiconductor Co., Ltd. (山東華芯半導體有限公司)	33.33
49	Qilu Investment Co., Ltd. (齊魯投資有限公司)	100.00
50	Qingdao Lucion Yuancheng Equity Investment Management Co., Ltd. (青島魯信源晟股權投資管理有限公司)	45.00
51	Tibet Lujiaxin Venture Capital Management Co., Ltd. (西藏魯嘉信創業投資管理有限公司)	35.00
52	Chengdu Lucion Jingrong Equity Investment Fund Management Co., Ltd. (成都魯信菁蓉股權投資基金管理有限公司)	35.00
53	Xi'an Lucion Equity Investment Management Co., Ltd. (西安魯信股權投資管理有限公司)	40.00
54	Tibet Hongxin Venture Capital Management Co., Ltd. (西藏泓信創業投資管理有限公司)	45.00
55	Lucion Overseas Investment Co., Ltd. (魯信海外投資有限公司)	32.50

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number	Name of enterprises	Shareholding ratio of Shandong High- Tech Venture Capital Co., Ltd. (%)
56	Xi'an Lucion Uroica Equity Investment Center Partnership (LLP) (西安魯信尤洛卡股權投資中心合夥企業(有限合夥))	40.00
57	Qingdao Lucion BOCOM Investment Enterprise (LLP) (青島魯信交銀投資企業(有限合夥))	44.99
58	Shandong Lucion Industrial Transformation Upgrade Investment Enterprise (LLP) (山東省魯信工業轉型升級投資企業(有限合夥))	12.00
59	Shandong Lucion Tianyi Printing Company Limited (山東魯信天一印務有限公司)	32.50
60	Weihai Fuxin Investment Co., Ltd. (威海福信投資有限公司)	35.00
61	Ningbo Meishan Bonded Port Lucion Yifeng Equity Investment Management Co., Ltd. (寧波梅山保稅港區魯信益豐股權投資管理有限公司)	35.00
62	Tibet Chengwei Venture Capital Co., Ltd. (西藏晟璋創業投資有限公司)	35.00
63	Weihai Lucion Fuwei Equity Investment Fund Partnership (LLP) (威海魯信福威股權投資基金合夥企業(有限合夥))	35.00
64	Chengdu Lucion Qingrong Venture Capital Center (LLP) (成都魯信菁蓉創業投資中心(有限合夥))	57.38
65	Liaocheng Lucion New Material Venture Capital Center (LLP) (聊城魯信新材料創業投資中心(有限合夥))	35.00

Notes:

- (1) Shandong New Beiyang Information Technology Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002376).
- (2) Tongyu Heavy Industry Co., Ltd. is a company listed on the GEM Board of the Shenzhen Stock Exchange (stock code: 300185).
- (3) Weihai Huadong Numerical Control Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002248).
- (4) Huabang Life Health Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002004).
- (5) Shandong Polymer Bio-chemicals Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002476).
- (6) Shandong Longlive Bio-Technology Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002604).
- (7) Shandong Liancheng Precision Manufacturing Co., Ltd. is an A share company listed on the Shenzhen Stock Exchange (stock code: 002921).
- (8) Beijing Xinwei Technology Group Co., Ltd. is an A share company listed on the Shanghai Stock Exchange (stock code: 600485).

During the reporting period, Yang Gongmin, a Supervisor of the Company, was nominated by Shandong High-Tech Venture Capital Co., Ltd.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Shandong Gold Group Co., Ltd.

Shandong Gold Group Co., Ltd., established in the PRC in July 1996, is a state-owned holding enterprise held by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government and Shandong Provincial Council for Social Security Fund. The legal representative is Chen Yumin, and the registered capital is RMB1,272.618 million. The registered address is Building 3, Shuntai Square, No. 2000 Shunhua Road, Jinan, Shandong Province, PRC. It is mainly engaged in purification, processing, production and sale of gold and jewellery, gold selection and refinement and technical service.

According to the information provided to the Company by Shandong Gold Group Co., Ltd., as at 31 December 2017, the basic information of enterprises directly held by Shandong Gold Group Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Shandong Gold Group Co., Ltd (%)
1	Shandong Gold Mining Co., Ltd.(山東黃金礦業股份有限公司) ⁽¹⁾	44.80
2	Shandong Gold Power Co., Ltd. (山東省黃金電力公司)	100.00
3	Shandong Gold Group Yantai Design and Research Engineering Co., Ltd. (山東黃金集團煙台設計研究工程有限公司)	100.00
4	Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)	100.00
5	Shandong Gold Nonferrous Metal Mining Group Co., Ltd.(山東黃金有色礦業集團有限公司)	100.00
6	Shandong Gold Property Traveling Group Co., Ltd. (山東黃金地產旅遊集團有限公司)	100.00
7	Qingdao International Golf Club Co., Ltd. (青島國際高爾夫俱樂部有限公司)	100.00
8	Shanjin Jinkong Capital Management Co., Ltd. (山金金控資本管理有限公司)	100.00
9	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司)	70.00
10	Shandong Gold Resources Development Co., Ltd. (山東黃金資源開發有限公司)	100.00
11	Shandong Gold International Mining Co., Ltd. (山東黃金國際礦業有限公司)	65.00
12	Shandong Gold Senior Technical School (山東黃金高級技工學校)	100.00
13	Shandong Jinxin New Building Material Co., Ltd. (山東金信新型建材有限公司)	100.00
14	Shandong Laizhou Ludi Gold Mine Co., Ltd. (山東萊州魯地金礦有限公司)	100.00
15	Shandong Gold Group Laizhou Mining Co., Ltd. (山東黃金集團萊州礦業有限公司)	4.00
16	Shandong Tiancheng Mining Co., Ltd. (山東天承礦業有限公司)	100.00
17	Shandong Gold Jinchuang Group Co., Ltd. (山東黃金金創集團有限公司)	65.00
18	Shandong Guang'an Firefighting Technology Service Co., Ltd. (山東廣安消防技術服務有限公司)	100.00

Notes:

(1) Shandong Gold Mining Co., Ltd. is an A share company listed on the Shanghai Stock Exchange (stock code: 600547).

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number	Name of enterprises	Shareholding ratio of Shandong Gold Group Co., Ltd (%)
19	Shandong Gold (Beijing) Industry Investment Co., Ltd. (山東黃金(北京)產業投資有限公司)	100.00
20	Shandong Gold Venture Investment Co., Ltd. (山東黃金創業投資有限公司)	100.00
21	The Oriental Institute of Shandong University of Finance and Economics (山東財經大學東方學院)	80.00
22	Shandong Gold Group Technology Co., Ltd. (山東黃金集團科技有限公司)	100.00
23	Laizhou Xinyuan Mining Investment Development Co., Ltd. (萊州鑫源礦業投資開發有限公司)	100.00
24	Beijing Capital Co., Ltd. (北京首信股份有限公司)	1.43
25	Donghai Securities Company Limited (東海證券股份有限公司)	1.20
26	Jinan International Airport Co., Ltd. (濟南國際機場股份有限公司)	1.28
27	Taishan Property and Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	4.93
28	Shandong Dongping Rural Cooperative Bank (山東東平農村合作銀行)	9.90
29	Feicheng Rural Credit Union (肥城市農村信用合作聯社)	9.90

Note:

(1) Shandong Gold Mining Co., Ltd. is a company listed on the Shanghai Stock Exchange (stock code: 600547).

During the reporting period, Wu Chen, a Supervisor of the Company, was nominated by Shandong Gold Group Co., Ltd.

Weifang Investment Group Co., Ltd.

Weifang Investment Group Co., Ltd., established in the PRC in August 1992, is a state-owned sole proprietorship established by State-owned Assets Supervision and Administration Commission of Weifang Municipal. The legal representative is Wang Yuepu, and the registered capital is RMB1,600 million. The registered address is 16-18/F of Investment Building, No. 6222 Dongfeng East Street, High-tech Development Zone, Weifang. It is principally engaged in investment and asset management of various industries including energy, infrastructure, high-tech, manufacturing, real estate, culture, tourism, catering, logistics and business and trading by private capital.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

According to the information provided to us by Weifang Investment Group Co., Ltd. as at 31 December 2017, the basic information of the enterprises directly held by Weifang Investment Group Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Weifang Investment Group Co., Ltd. (%)
1	Weifang Guowei Venture Capital Investment Company, Limited (濰坊市國維創業投資有限公司)	100.00
2	Weifang Guowei Huijin Investment Co., Ltd. (濰坊市國維匯金投資有限公司)	96.00
3	Weifang Guowei Property Investment Co., Ltd. (濰坊市國維實業投資有限公司)	100.00
4	Weifang Securities Service General Co., Ltd. (濰坊市保安服務總公司)	100.00
5	Huadian Weifang Power Generation Co., Ltd. (華電濰坊發電有限公司)	25.00
6	Weichai Power Co., Ltd. (濰柴動力股份有限公司) ⁽¹⁾	3.71
7	Weichai Heavy Machinery Co., Ltd. (濰柴重機股份有限公司) ⁽²⁾	20.46
8	Lovel Heavy Industry Co., Ltd. (雷沃重工股份有限公司)	20.84
9	Weifang Port Group Company Ltd. (濰坊港集團有限公司)	27.99
10	Shandong Weizhao Holding Group Co., Ltd. (山東濰焦控股集團有限公司)	20.00
11	Shandong Natural Gas Pipeline On-grid Investment Co., Ltd. (山東省天然氣管網投資有限公司)	10.89
12	Shandong Langchao Huaguang Optoelectronics Co., Ltd. (山東浪潮華光光電子股份有限公司)	7.61
13	Shandong Huaguang Optoelectronics Co., Ltd. (山東華光光電子股份有限公司)	7.03
14	Shandong Junfu Non-Woven Materials Co., Ltd. (山東俊富非織造材料有限公司)	12.00
15	Weifeng Credit Financing Guarantee Co., Ltd. (濰坊市信用融資擔保有限責任公司)	77.88
16	Weifang Binhai Investment Development Co., Ltd. (濰坊濱海投資發展有限公司)	30.00
17	Weifang Banking Co., Ltd. (濰坊銀行股份有限公司)	6.21
18	Shandong Shouguang Rural Commercial Bank Co., Ltd. (山東壽光農村商業銀行有限公司)	6.99

Notes:

(1) Weichai Power Co., Ltd. is a company listed on the Hong Kong Stock Exchange (stock code: 2338) and the Shenzhen Stock Exchange (stock code: 000338).

(2) Weichai Heavy Machinery Co., Ltd. is a company listed on the Shenzhen Stock Exchange (stock code: 000880).

During the reporting period, Wang Yuepu, a Supervisor of the Company, was nominated by Weifang Investment Group Co., Ltd.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Jinan Energy Investment Co., Ltd.

Jinan Energy Investment Co., Ltd., established in February 2016, is an indirect wholly-owned enterprise of State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government. The legal representative is Zhang Jilu, and the registered capital is RMB200 million. The registered address is Jihua Hotel, No.19 Yingxian Street, Tianqiao District, Jinan City. It is principally engaged in the operation and management of power construction fund and energy fund.

According to the information provided to the Company by Jinan Energy Investment Co., Ltd., as at 31 December 2017, the basic information of enterprises directly held by Jinan Energy Investment Co., Ltd. is as follows:

Number	Name of enterprises	Shareholding ratio of Jinan Energy Investment Co., Ltd. (%)
1	Yingda International Trust Co., Ltd. (英大國際信託有限責任公司)	4.38
2	Huadian Zhangqiu Power Company Limited (華電章丘發電有限公司)	4.00
3	Jinan Technology Risk Investment Co., Ltd. (濟南科技風險投資有限公司)	2.08
4	Kexin Financing Guarantee Co., Ltd. (科信融資擔保有限公司)	8.33
5	Jinan Kexin Venture Investment Co., Ltd. (濟南科信創業投資有限公司)	9.00
6	Jinan Quanfa Energy Investment Management Co., Ltd. (濟南泉發能源投資管理有限公司)	45.00
7	Jinan Jihua Hotel Operation Management Co., Ltd. (濟南吉華大廈運營管理有限責任公司)	84.00
8	Jinan Ouyuan Construction Engineering Co., Ltd. (濟南歐遠建築工程有限公司)	38.83
9	LUZHENG FUTURES Company Limited (魯證期貨股份有限公司) ⁽¹⁾	1.14
10	Shandong Lu Xin Asset Management Consulting Co., Ltd. (山東魯信資產管理諮詢有限公司)	30.00

Note:

(1) LUZHENG FUTURES Company Limited is a company listed on the Hong Kong Stock Exchange (stock code: 1461).

During the reporting period, Guan Wei, a Supervisor of the Company, was nominated by Jinan Energy Investment Co., Ltd.

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

TABLE OF USE AND DISTRIBUTION OF TRUST ASSETS

As at 31 December 2017

Unit: RMB0'000

Use of assets	Amount	Distribution of		Amount	Portion (%)
		Portion (%)	assets		
Currency assets	443,575.72	1.63	Basic industry	3,690,137.19	13.58
Loans	13,459,816.10	49.54	Housing properties	5,684,340.76	20.92
Tradable financial assets investment	3,426,426.16	12.61	Securities market	1,848,940.21	6.81
Available-for-sale financial assets investment	142,588.61	0.52	Industry	8,424,839.82	31.01
Held-to-maturity investment	7,337,465.03	27.01	Financial institutions	4,338,379.16	15.97
Long-term equity interest investment	1,872,400.34	6.89	Others	3,180,860.84	11.71
Others	485,226.02	1.80			
Total trust assets	27,167,497.98	100.00	Total trust assets	27,167,497.98	100.00

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

COMBINED BALANCE SHEET OF TRUST PROJECTS

Prepared by: Shandong International Trust Co., Ltd.

31 December 2017

Unit: RMB'000

Assets	Ending balance	Opening balance	Liabilities and equity	Ending balance	Opening balance
Assets:			Liabilities:		
Cash and bank deposits	364,133.00	372,820.37	Financial liabilities held for trading	-	-
Placement to banks and other financial institutions	-	-	Derivative financial liabilities	-	-
Clearing settlement funds	79,442.72	99,150.45	Disposal of repurchased financial assets	51,482.38	-
Financial assets held for trading	3,426,426.16	4,353,449.26	Account payable	-	-
Derivative financial assets	-	-	Redemption payables	75,414.72	-
Financial assets purchased under agreements to resell	21,170.70	318,998.90	Trustee's remuneration payable	35,907.37	23,240.40
Account receivables	-	1.22	Beneficiaries' gains payable	68,014.12	45,435.15
Interest receivables	38,386.86	84,117.63	Custodian fees payable	987.31	1,267.91
Dividend receivables	4,034.22	547.89	Service fees for sales payable	1.56	0.27
Application payment receivables	-	-	Tax payable	-	-
Note receivables	-	-	Interests payable	-	-
Other receivables	125,616.50	113,662.89	Other payables	49,919.89	47,461.12
Refundable deposits	-	-	Other liabilities	5,158.95	-
Loans to customers	13,459,816.10	12,836,760.88	Total liabilities	286,886.30	117,404.85
Long-term receivables	161,450.91	39,855.68			
Available-for-sale financial assets	142,588.62	40,853.71	Equity:		
Held-to-maturity investments	7,337,465.03	5,058,629.79	- Paid-up trusts	26,340,763.36	25,463,684.70
Long-term equity investments	1,872,400.34	2,753,836.28	- Capital reserves	71,789.49	82,670.67
Investment properties	-	-	- Equalisation	-	-
Finance leasing assets	-	-	- Undistributed profit	468,058.83	451,649.86
Fixed assets	-	-	- Total equity	26,880,611.68	25,998,005.23
Disposal of fixed assets	-	-			
Intangible assets	-	-			
Long-term amortisation expenses	-	-			
Other assets	134,566.82	42,725.13			
Total trust assets	27,167,497.98	26,115,410.08			
Less: provision for impairment of various assets	-	-			
			Total liabilities and equity		
Total assets	27,167,497.98	26,115,410.08	equity	27,167,497.98	26,115,410.08

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

COMBINED STATEMENT FOR INCOME AND INCOME DISTRIBUTION OF TRUST BUSINESS

Prepared by: Shandong International Trust Co., Ltd.

Year of 2017

Unit: RMB0'000

Item	Aggregate for this year	Aggregate for last year
I. Revenue	1,800,222.28	1,608,551.19
Interest income	1,196,914.84	1,013,654.71
Investment income (losses indicated in "-")	474,638.96	164,053.86
Including: income from investment in associates and joint ventures	-	-
Gains from change in fair value (losses indicated in "-")	103,516.92	389,954.20
Lease income	1.06	(29.99)
Exchange gains and losses (losses indicated in "-")	-	16.60
Other income	25,150.50	40,901.81
II. Expenses	240,019.22	181,086.75
Business tax and surcharges	-	59.01
Trustees' remuneration	120,956.21	94,521.69
Custodian fees	15,899.24	19,699.84
Service fees for sale	5,083.79	108.10
Transaction costs	4,597.95	2,532.31
Interest expenses	-	0.48
Asset impairment losses	-	-
Other expenses	93,482.03	64,165.32
III. Net profit (net losses indicated in "-")	1,560,203.06	1,427,464.44
IV. Other comprehensive income	5,638.00	-
V. Comprehensive income	1,565,841.06	1,427,464.44
VI. Undistributed profit at the beginning of the period	451,649.86	185,510.90
VII. Distributed trust profit for the period	1,549,432.09	1,161,325.48
VIII. Undistributed profit at the end of the period	468,058.83	451,649.86

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

MANAGEMENT OF TRUST ASSETS

Amount of trust assets at the beginning of the period and at the end of the period (by individual, collective and property right)

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Collective	7,073,361.46	11,261,865.93
Individual	17,430,619.41	15,523,059.51
Property right	1,611,429.21	382,572.54
Total	26,115,410.08	27,167,497.98

Amount of paid-up trusts at the beginning of the period and at the end of the period (by financing, investment and administrative)

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Financing	3,406,360.55	4,831,388.14
Investment	2,790,894.60	2,964,479.46
Administrative	19,266,429.55	18,544,895.76
Total	25,463,684.70	26,340,763.36

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

The number, amount, weighted average actual annualised remuneration rate of collective and individual fund trust scheme and property right trust scheme which have been settled for the year

Unit: RMB0'000

Settled trust scheme	Number of schemes	Total amount of paid-up trusts	Weighted average actual annualised remuneration rate
Collective	91	3,624,745.94	5.39%
Individual	181	4,559,952.71	5.18%
Property right	1	60,000.00	12.68%

Note: Weighted average actual annualised remuneration rate = (actual annualised remuneration rate of trust scheme 1 × total asset of trust scheme 1 + actual annualised remuneration rate of trust scheme 2 × total asset of trust scheme 2 + ... actual annualised remuneration rate of trust scheme n × total asset of trust scheme n) / (total asset of trust scheme 1 + total asset of trust scheme 2 + total asset of trust scheme n) × 100%

The settled financing, investment and administrative trust scheme for the year

Unit: RMB0'000

Settled trust scheme	Number of scheme	Total amount of paid-up trusts	Weighted average actual annualised trust remuneration rate	Weighted average actual annualised remuneration rate
Financing	41	1,567,729.46	1.76%	6.81%
Investment	27	1,003,011.19	0.92%	9.26%
Administrative	205	5,673,958.00	0.72%	4.16%

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Number of scheme and total amount of newly-added paid-in trust of collective, individual and property management trust scheme for the year

Unit: RMB0'000

Settled trust scheme	Number of scheme	Total amount of paid-in trust
Collective	117	4,687,788
Individual	308	5,386,979
Property right	7	146,149
Total of newly-added scheme	432	10,220,916
Including:		
actively managed	237	4,559,664
Administrative	195	5,661,252

Trust assets and connected parties: aggregate amount of loans, investment, leases, accounts receivable, guarantee and other methods at the beginning of the period, for the period and at the end of the period

Unit: RMB0'000

Connected transactions between trust and connected parties				
	Amount at the beginning of the period	Amount from borrowers	Amount from lenders	Amount at the end of the period
Loans	873,768	10,000	203,272	680,496
Investment	59,753	1,850	-	61,603
Leasing	-	-	-	-
Guarantee	-	-	-	-
Accounts receivable	-	-	-	-
Others	90,000	40,000	-	130,000
Total	1,023,521	51,850	203,272	872,099

ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBRC

Aggregate amount of the transaction between proprietary properties and trust properties at the beginning of the period, for the period and at the end of the period

Unit: RMB0'000

Item	Transactions between proprietary properties and trust properties		
	Amount at the beginning of the period	Net amount for the period	Amount at the end of the period
Total	389,354	80,178	469,532

Aggregate amount of the transaction between trust assets at the beginning of the period, for the period and at the end of the period

Unit: RMB0'000

Item	Transactions between trust assets and trust properties		
	Amount at the beginning of the period	Net amount for the period	Amount at the end of the period
Total	229,483	-22,975	206,508

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shandong International Trust Co., Ltd.

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

OPINION

What we have audited

The consolidated financial statements of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 168 to 271, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Consolidation assessment of trust schemes
- Impairment allowances for loans to customers

Key Audit Matter

How our audit addressed the Key Audit Matter

Consolidation assessment of trust schemes

Refer to note 2.4, 2.7, 3(c) and 34 to the consolidated financial statements

The Group has managed or invested in a number of trust schemes. As at 31 December 2017, among all these trust schemes, the total volume of approximately RMB6,958 million were consolidated by the Group while RMB256,326 million were not consolidated.

Management performed assessment on each of the three elements of control (power to direct relevant activities of trust schemes, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the trust schemes) in accordance with IFRS 10 – Consolidated Finance Statements, to determine whether the trust schemes managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acted as a principal, the Group controlled the trust schemes and the trust schemes should be consolidated.

We obtained an understanding of the management's controls over the consolidation assessment of trust schemes.

In addition, we selected samples of trust schemes that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of trust schemes:

1. Understood the purpose and design of the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these trust schemes;
2. Inspected contract terms related to the Group's variable returns from these selected trust schemes, including management fee, direct investment and liquidity support, agreed this information to the corresponding inputs used in management's assessment on the variable returns;
3. Recalculated the variable returns to the Group from these trust schemes based on contract terms.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

How our audit addressed the Key Audit Matter

We focused on this area because the amount of the trust schemes with which the Group had involvement was significant and the consolidation assessment of these trust schemes involved significant judgments.

4. Assessed the Group's role in the trust schemes as a principle or an agent through analysing the Group's ability to use its power to affect its variable returns from the trust schemes, benchmarking the level of variable returns that concludes the Group to be a principle against the guidance in the standard.

Based on the work undertaken above, we found the consolidation assessment of trust schemes performed by management was acceptable.

Impairment allowances for loans to customers

Refer to note 2.16.1(e), 3(a), 12 and 18(b), 18(c) to the consolidated financial statements

As at 31 December 2017, the Group reported a gross amount of loans to customers of RMB6,581 million with impairment allowances of RMB399 million. The net book value of loans to customers was RMB6,182 million.

The Group first assesses loans individually for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed loan (whether significant or not), it includes the loan in a group of loans with similar credit risk characteristics and collectively reassesses them for impairment.

The impairment loss for a loan that is individually assessed is the difference between estimated discounted future cash flows and gross amount of the loan. When loans are collectively assessed for impairment, management uses estimates and judgements based on historical information of loans with similar credit risk characteristics. Impairment loss is adjusted based on the relevant observable data which reflect current economic conditions.

We focused on this area because the balance of loans was significant and the assessment of impairment loss involved significant estimates and judgments.

We understood and evaluated management's controls over impairment assessment and calculation.

In addition, we have performed the following procedures:

1. For samples of loans not being identified by management as impaired, we tested management's assessment by examining the underlying loan information and external evidence available;
2. Where impairment was assessed on an individual basis, we assessed the forecasts and assumptions of future cash flows prepared by management by examining the underlying supporting evidence with reference to external market data, and re-performed the calculation;
3. Where impairment allowances were assessed on a collective basis, we assessed if the impairment methodology of the management reflected the credit risk of loans in the current economic environment and challenged the key assumptions and estimates used by management in the impairment assessment based on our industry knowledge and available market information. We also agreed the relevant observable data used by management to available market information and tested the calculation of collective allowance performed by the management.

Based on the work undertaken above, we found that the evidence we obtained supported the estimates and judgments made by management in the impairment assessment of loans to customers.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.



PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Fee and commission income	5	1,129,771	827,540
Interest income	6	490,698	455,226
Net changes in fair value on financial assets at fair value through profit or loss		1,793	(81,046)
Investment income	7	21,148	84,080
Other operating income	8	4,487	41,581
Total operating income		1,647,897	1,327,381
Interest expenses	9	(167,731)	(88,097)
Staff costs (including directors and supervisors' emoluments)	10	(175,737)	(161,751)
Operating lease payments		(9,336)	(10,793)
Depreciation and amortisation		(9,115)	(5,684)
Change in net assets attributable to other holders of consolidated structured entities		1,831	1,316
Tax and surcharges		(14,559)	(24,642)
Auditor's remuneration		(2,358)	(1,100)
Other operating expenses		(90,695)	(57,232)
Impairment losses on financial assets	12	(228,458)	(40,518)
Total operating expenses		(696,158)	(388,501)
Share of profit of investments accounted for using the equity method		167,675	138,248
Operating profit before income tax		1,119,414	1,077,128
Income tax expense	13	(224,609)	(244,099)
Net profit attributable to shareholders of the Company		894,805	833,029

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		(19,914)	(97,902)
Share of other comprehensive income from investments accounted for using the equity method	29	(6,838)	(20,361)
Income tax relating to components of other comprehensive income		4,978	24,475
Total other comprehensive income, net of tax		(21,774)	(93,788)
Total comprehensive income attributable to shareholders of the Company		873,031	739,241
Basic and diluted earnings per share attributable to the shareholders of the Company (in RMB yuan)	14	0.44	0.42

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	31 December	
		2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	15	120,092	124,516
Intangible assets		4,617	4,206
Investments accounted for using the equity method	16	1,902,034	1,566,102
Available-for-sale financial assets	17	636,221	866,201
Loans to customers	18	3,196,960	3,133,438
Investments classified as loans and receivables	19	223,511	43,443
Advance payments	20	18,993	2,788
Deferred income tax assets	21	74,708	18,485
Other non-current assets	22	348,087	277,111
Total non-current assets		6,525,223	6,036,290
Current assets			
Cash and bank balance	23	1,172,808	274,486
Financial assets at fair value through profit or loss	24	485,225	305,475
Financial assets purchased under agreements to resell	25	951,400	298,900
Loans to customers	18	2,985,472	914,797
Investments classified as loans and receivables	19	20,479	137,200
Trustee's remuneration receivable		314,999	203,089
Interest receivable		58,864	29,135
Other current assets	26	387,577	448,651
Total current assets		6,376,824	2,611,733
Total assets		12,902,047	8,648,023
Equity and liabilities			
Share capital	27	2,588,250	2,000,000
Capital reserve	27	2,215,637	616,289
Statutory surplus reserve	28	688,876	608,527
Statutory general reserve	28	718,772	638,423
Other reserves	29	29,449	51,223
Retained earnings		2,906,556	2,426,662
Total equity		9,147,540	6,341,124

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in thousands of RMB unless otherwise stated)

		31 December	
	Note	2017	2016
Liabilities			
Non-current liabilities			
Salary and welfare payable		44,974	32,757
Net assets attributable to other beneficiaries of consolidated structured entities	31	1,204,744	1,361,366
Total non-current liabilities		1,249,718	1,394,123
Current liabilities			
Short-term borrowings	32	328,000	500,000
Salary and welfare payable		37,046	38,182
Net assets attributable to other beneficiaries of consolidated structured entities	31	1,482,253	179,894
Income tax payable		178,863	68,439
Dividend payable		4,048	–
Other current liabilities	33	474,579	126,261
Total current liabilities		2,504,789	912,776
Total liabilities		3,754,507	2,306,899
Total equity and liabilities		12,902,047	8,648,023

The accompanying notes form a part of these consolidated financial statements.

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2018 and signed on its behalf by:



Chairman and Executive Director



General Manager and Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in thousands of RMB unless otherwise stated)

	Share capital (Note 27)	Capital reserve (Note 27)	Statutory surplus reserve (Note 28)	Statutory general reserve (Note 28)	Other reserves (Note 29)	Retained earnings	Total
Balance at 1 January 2017	2,000,000	616,289	608,527	638,423	51,223	2,426,662	6,341,124
Net profit for the year	-	-	-	-	-	894,805	894,805
Other comprehensive income for the year	-	-	-	-	(21,774)	-	(21,774)
Total comprehensive income	-	-	-	-	(21,774)	894,805	873,031
Appropriation to statutory surplus reserve	-	-	80,349	-	-	(80,349)	-
Appropriation to statutory general reserve	-	-	-	80,349	-	(80,349)	-
Dividends paid (Note 30)	-	-	-	-	-	(254,213)	(254,213)
Proceeds from issuance of H shares	588,250	1,599,348	-	-	-	-	2,187,598
Balance at 31 December 2017	2,588,250	2,215,637	688,876	718,772	29,449	2,906,556	9,147,540
Balance at 1 January 2016	2,000,000	616,289	520,149	590,460	145,011	2,125,571	5,997,480
Net profit for the year	-	-	-	-	-	833,029	833,029
Other comprehensive income for the year	-	-	-	-	(93,788)	-	(93,788)
Total comprehensive income	-	-	-	-	(93,788)	833,029	739,241
Appropriation to statutory surplus reserve	-	-	88,378	-	-	(88,378)	-
Appropriation to statutory general reserve	-	-	-	47,963	-	(47,963)	-
Dividends paid (Note 30)	-	-	-	-	-	(395,597)	(395,597)
Balance at 31 December 2016	2,000,000	616,289	608,527	638,423	51,223	2,426,662	6,341,124

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Profit before income tax		1,119,414	1,077,128
Adjustments for:			
Depreciation and amortization		9,115	5,684
Impairment losses on financial assets	12	228,458	40,518
Fair value changes in financial assets at fair value through profit or loss		(1,793)	81,046
Change in net assets attributable to other beneficiaries of consolidated structured entities		(1,831)	(1,316)
Investment income from Investments accounted for using the equity method		(167,675)	(138,248)
Interest expense to China Trust Protection Fund Co., Ltd.		16,417	12,420
Investment income from disposal of construction project		–	(30,970)
Investment income from available-for-sale investments		(15,214)	(66,715)
Subtotal		1,186,891	979,547
Net change in operating assets and operating liabilities:			
(Increase)/Decrease in financial assets at fair value through profit or loss		(177,957)	6,803
Increase in loans to customers		(2,321,500)	(1,010,271)
Increase in investments classified as loans and receivables		(75,966)	(102,550)
(Increase)/Decrease in financial assets purchased under agreements to resell		(652,500)	124,680
Net (increase)/decrease in other operating assets		(57,320)	484,386
Net increase/(decrease) in other operating liabilities		1,506,994	(90,297)
Cash from operating activities before income tax		(591,358)	392,298
Income tax paid		(280,833)	(454,175)
Net cash used in operating activities		(872,191)	(61,877)

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from investing activities:			
Dividends received from investments accounted for using the equity method		55,746	130,344
Sales of available-for-sale financial assets		354,924	555,594
Dividends received from available-for-sale investments		332	28,902
Proceeds from disposal of investments accounted for using the equity method		–	4,000
Purchase of property and equipment, intangible assets and other long-term assets		(5,102)	(99,260)
Purchase of available-for-sale financial assets		(365,875)	(190,840)
Purchase of investments accounted for using the equity method		(18,500)	(666,500)
Net cash generated from/(used in) investing activities		21,525	(237,760)
Cash flows from financing activities:			
Proceeds from issuance of H shares		2,187,598	–
Short-term borrowings from China Trust Protection Fund Co., Ltd.		328,000	500,000
Repayment of short-term borrowings from China Trust Protection Fund Co., Ltd.		(500,000)	–
Short-term borrowings from inter-bank market		–	100,000
Repayment of short-term borrowings from inter-bank market		–	(100,000)
Interest expense paid to China Trust Protection Fund Co., Ltd.		(16,417)	(12,350)
Interest expense paid for inter-bank borrowings		–	(70)
Dividends paid to shareholders	30	(250,164)	(395,597)
Net cash generated from financing activities		1,749,017	91,983
Effect of exchange rate changes on cash and cash equivalents		(29)	443
Net increase/(decrease) in cash and cash equivalents		898,322	(207,211)
Cash and cash equivalents at beginning of the year		274,486	481,697
Cash and cash equivalents at end of the year	23	1,172,808	274,486
Net cash flows from operating activities including:			
Interest received		460,969	503,847
Interest paid		(203,468)	(88,646)

The accompanying notes form a part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)*

1. GENERAL

Shandong International Trust Co., Ltd. (“Shandong Trust” or “the Company”) is a non-bank financial institution incorporated in Shandong Province, the People’s Republic of China (the “PRC”) on 10 March 1987 with the approval from People’s Bank of China (“PBOC”) and Shandong Provincial Government. In August 2002, the Company was transformed from a wholly state owned company to a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi (“RMB”) 2,000,000,000 (RMB1 each per registered and issued share). On 8 December 2017, the Company completed its public offering and increased its share capital to RMB2,588,250,000 and its shares were listed on The Stock Exchange of Hong Kong Limited.

The Company operates under the financial service certificate No. 00606003 from the China Banking Regulatory Commission (“the CBRC”) issued in August 2015. The principal activities of the Company as approved by the CBRC include trust business and proprietary business. Trust business is the Company’s core business. As the trustee, the Company accepts entrustment of funds and property from its trustor clients and manages such entrusted funds and property to satisfy its trustor clients’ financing, investment and wealth management needs. The proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business in order to maintain and increase the value of its proprietary assets.

The information of the Company’s subsidiaries which are structured entities are provided in Note 34 to the consolidated financial statements. The Company and its subsidiaries are collectively referred to as “the Group”.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the relevant years presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statement are disclosed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) *New and amended standards adopted by the Group*

In the current year, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2017 and the relevant impact is set out below:

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IAS 7 Disclosure initiative

Amendments to IAS 12

The IASB has issued amendments to IAS 12 – 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to IAS 7

The IASB has issued an amendment to IAS 7 – 'Statement of cash flows' introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) *New standards and interpretations not yet adopted*

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

		Effective for annual period beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendment to IAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to IAS 40	Transfers of investment property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16	Lease	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Group's investments that are currently classified as available-for-sale ("AFS") will not satisfy the conditions for classification as at fair value through other comprehensive income ("FVOCI") or at amortised cost and hence will have to be reclassified to financial assets at fair value through profit or loss ("FVTPL"). For other equity instruments classified as AFS financial assets, the Group decided not to make an irrevocable election to present their changes in fair value in other comprehensive income, and they will also be classified as FVTPL under IFRS 9. The corresponding accumulated fair value recognised in other comprehensive income will have to be transferred to retained earnings on 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) *New standards and interpretations not yet adopted (Continued)*

IFRS 9 Financial Instruments (Continued)

The other financial assets held by the Group include:

- equity investments currently measured at FVTPL which will continue to be measured on the same basis under IFRS 9, and
- debt instruments currently classified as financial assets purchased under agreements to resell, loans to customers and investments classified as loans and receivables, and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will have no impact on the Group as there's no hedge transaction in the Group.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for loan to customers, investments classified as loans and receivables and trustee's remuneration receivables and in relation to debt investments held at amortised cost.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) *New standards and interpretations not yet adopted (Continued)*

IFRS 15 Revenue from Contracts with Customers

IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The directors are in the process of assessing the impact of IFRS 15 and preliminarily consider that it may have some impact on the Group's consolidated financial position and results of operation upon adoption of the new standard on 1 January 2018.

IFRS 16 Leases

Under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet), IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset' for virtually all lease contracts. As at 31 December 2017, the Group has non-cancellable operating lease commitment of RMB1,011 thousand, see note 35(b). The new standard will impact both the balances, but the impact will not be material.

Except the above mentioned impact of IFRS 9 and IFRS 15, the Group expects adoption of the above new IFRS, amendments to IFRS and IFRIC interpretations issued but not yet effective will not have a material effect on the Group's operating results, financial position or other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Financial year

The accounting year starts on 1 January and ends on 31 December.

2.3 Functional currency

The functional currency of the Company and its subsidiaries, as determined by the primary economic environment in which they operate, is RMB which is also the reporting currency of the Group.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Group and all its subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.5 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's statement of financial position, investment in subsidiaries is accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)*

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.6 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit from investments accounted for using equity method' in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.7 Structured entities

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group determines whether it is an agent or a principal in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principal if it acts primarily for itself, and therefore controls the structured entity.

Structured entities with which the Group has involvement include trust schemes, investment funds and asset management products. The Company establishes trust schemes, by virtue of which it earns fee income by providing trustee and management services to the trustors (also refer to investors) of the trust schemes. The trust schemes mainly include financing trust schemes and investment trust schemes. The Company may also make direct investments in the trust schemes it establishes and manages.

For structured entities, the Group assesses whether they should be consolidated based on the contractual terms as to whether the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated structured entities of the Group are disclosed in Note 34(b). Third-party beneficiaries' interests in the consolidated structured entities with a limited life or puttable instruments issued and are classified as liabilities in the Group's consolidated statement of financial position, and net profits or losses attributable to third-party beneficiaries are recorded in "interest expense" for consolidated financing trust schemes or "change in net assets attributable to other beneficiaries of the consolidated structured entities" for consolidated investment trust schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)*

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.8 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) 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.

Interest income on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

2.9 Fee and commission income

The Group earns fee and commission income from trust and other businesses it provides to its customers, the majority of which relates to the trust services that are provided over a period of time. For such service, fee and commission income are recognised over that period. For other services, fee and commission income are recognised when the provision of service is completed.

2.10 Dividend income

Dividends are recognised when the right to receive payment is established.

2.11 Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other operating income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the period in which the expenses are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.12 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, and post-employment benefits.

(a) *Short-term employee benefits*

In the reporting period in which an employee has rendered services, the Group recognises the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labour union fees and staff education expenses.

(b) *Post-employment benefits*

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plans are recognised in profit or loss for the period in which the related payment obligation is incurred.

2.13 Current and deferred income taxes

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each 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 realized or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realization and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)*

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Current and deferred income taxes (Continued)

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2.14 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognised in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as, deposits with banks with original tenors less than 3 months.

2.16 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position and classified into one of the categories presented below. 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 market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance 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, respectively, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.1 Financial assets

The Group's financial assets are classified into four categories – financial assets at fair value through profit or loss ("FVTPL"), 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.

(a) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

The terms set out in the trust contracts of the Company's consolidated securities investment trusts require the Company to evaluate the information about their underlying financial assets and liabilities on a fair value basis together with other related financial information.

The Company has classified, at inception, all of the financial assets of the Company's consolidated securities investment trusts at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.1 Financial assets (Continued)

(a) *Financial assets at fair value through profit or loss (Continued)*

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in the profit or loss in the period in which they arise.

(b) *Held-to-maturity financial investments*

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

(c) *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 are carried at amortized cost using the effective interest method.

Financial assets classified as loans and receivables primarily include loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell.

(d) *Available-for-sale financial assets*

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. All gains and losses from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the other reserves in equity, until the financial asset is disposed or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the other reserves in equity is reclassified to the profit or loss.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive such payments is established.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.1 Financial assets (Continued)

(e) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets (other than those measured at fair value through profit or loss) is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the financial assets (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to 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.
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

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For the year ended 31 December 2017
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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.1 Financial assets (Continued)

(e) Impairment of financial assets (Continued)

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment. The Group separately checks all available-for-sale equity investments at the end of each reporting period. If a decline in the fair value of an equity investment is below its initial cost by 30% or more, or fair value is below cost for one year or longer at the end of the reporting period, it indicates that such an equity investment is impaired.

(i) Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

For financial assets carried at amortized cost, the impairment loss 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.

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. 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 the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.1 Financial assets (Continued)

(e) Impairment of financial assets (Continued)

(ii) Financial assets classified as available-for-sale

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

An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. Impairment losses recognised for equity instruments classified as available-for-sale are not reversed through profit or loss. The fair value of the equity instruments increases in a subsequent period after an impairment loss has been recognised is recognised directly in other comprehensive income.

2.16.2 Financial liabilities

The Group's financial liabilities are measured at amortized cost, using the effective interest method.

2.16.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.3 Determination of fair value (Continued)

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.16.4 De-recognition

The Group derecognises a financial asset 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 have been transferred 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 de-recognition 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, where applicable, the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.16.5 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to offset the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial instruments (Continued)

2.16.6 Resale agreements

Consideration paid for financial assets purchased under agreements to resell are recorded as such in the consolidated statement of financial position.

The difference between purchase and resale price is recognised as interest income in profit or loss over the term of the agreements using the effective interest method.

2.17 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 Property, plant and equipment (Continued)

(b) Depreciation and impairment (Continued)

The estimated useful lives, residual values rates and annual depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20–40 years	3%	2.43%–4.85%
Motor vehicles	8 years	3%	12.13%
Equipment	3–5 years	3%	19.40%–32.33%
Furniture and others	5–10 years	3%	9.70%–19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.21.

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

2.18 Land use rights

Land use rights are initially recognised at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortized net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.19 Intangible assets

The intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.21.

Intangible assets of the Group mainly include computer software which is amortized over 5 years.

2.20 Foreclosed assets

When the Group's obligor uses foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised at fair value.

Impairment losses on foreclosed assets are accounted for in accordance with the accounting policies as set out in Note 2.21.

2.21 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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 in profit or loss.

2.22 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and 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.

Provisions are measured at 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. Where 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017
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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.23 Leases

Leases in which substantially all the risk and rewards of the ownership are transferred to the lessee are classified as financing lease. Other leases are operating lease.

Rental payments of operating lease are recognised in profit or loss according to the method of straight line during the lease term.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.25 Segment reporting

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group has determined the management team represented by the general manager as its chief operating decision maker.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

(a) Impairment allowances for loans to customers

The Group regularly reviews its loan portfolios to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio of loans. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans to customers are collectively assessed for impairment, Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when 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 incurred.

(b) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, and discounted cash flow analysis. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates, share price and index, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(c) Determination of control over trust schemes

Where the Company acts as trustee and asset manager of trust schemes it established, the Company makes judgement on whether it is the principal or an agent to assess whether the Company controls the trust schemes and should consolidate them. When performing this assessment, the Company considers several factors including, among other things, the scope of its decision-making authority over the trust schemes, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the trustee and management services, the Company's exposure to variability of returns from other interests that it holds in the trust schemes, for example direct investments. The Group performs re-assessment when the factors change.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(d) Income taxes

The Group is subject to income taxes and significant judgement is required in determining provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Taxation matters are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

4 TAXATION

The main categories and rates of taxes applicable to the Company are set out below:

Type of tax	Tax rate	Tax base
Enterprise income tax	25%	Taxable income
Value added tax ("VAT")	6%	Tax payable is calculated using the taxable income multiplied by the applicable tax rate ("output VAT") less deductible input VAT of current period
Business tax	5%	Taxable turnover amount
Urban maintenance and construction tax	7%	Value added tax or business tax
Educational surcharges	3%	Value added tax or business tax

Pursuant to the Circular on the Pilot Plan for Levying VAT in Place of Business Tax (Caishui No. 36, 2016) issued by the Ministry of Finance on 23 March 2016, VAT is levied in financial services industry in mainland China effective from 1 May 2016 and replaced business tax. VAT payable is calculated monthly by deducting input VAT from output VAT. The output VAT is calculated by multiplying taxable income by applicable tax rate. The input VAT is determined based on VAT invoices obtained from suppliers. Fee and commission income is presented net of output VAT from 1 May 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2017	2016
Fee and commission income		
Trustee's remuneration	1,125,510	825,053
Others	4,261	2,487
Total	1,129,771	827,540

6 INTEREST INCOME

	Year ended 31 December	
	2017	2016
Interest income from		
Cash and bank balance	2,003	4,735
Loans to customers	448,124	413,971
Investments classified as loans and receivables	16,024	16,809
Financial assets purchased under agreements to resell	18,374	14,602
Trust Industry Protection Fund (i)	6,173	5,109
Total	490,698	455,226
Including: Interest income from impaired financial assets	37,433	94,511

- (i) The amount represents the interest received in respect of contribution to the Trust Industry Protection Fund in connection with financing trust schemes.

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7 INVESTMENT INCOME

	Year ended 31 December	
	2017	2016
Dividends income from:		
Available-for-sale equity investments	332	28,902
Net realised gains/(losses) from:		
Financial assets at fair value through profit or loss	5,933	19,736
Available-for-sale financial assets	14,883	37,814
Disposal of investments accounted for using the equity method	–	(2,372)
Total	21,148	84,080

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2017	2016
Disposal of a construction project to a government related entity ("Government Related Entity A")	–	30,970
Government grants (i)	2,000	2,000
Foreign exchange gain	–	416
Other miscellaneous income	2,487	8,195
Total	4,487	41,581

- (i) Government grants for the years ended 31 December 2017 and 2016 mainly represent the amounts received from Shandong Provincial Finance Bureau for rewarding the Group's contribution to the development of local economy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 INTEREST EXPENSE

	Year ended 31 December	
	2017	2016
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	16,417	12,350
Interest accrued on inter-bank borrowings	–	70
Third-party beneficiaries' interests (i)	151,314	75,677
Total	167,731	88,097

- (i) These interests represent expected returns attributable to third-party beneficiaries of the consolidated financing trust schemes, after offsetting the impairment losses attributable to third-party beneficiaries. Third-party beneficiaries' interests in the consolidated trust schemes have been accounted for as net assets attributable to other beneficiaries of consolidated structured entities in the consolidated statements of financial position (Note 31).

10 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
Salaries and bonuses	148,771	137,278
Pension costs (defined contribution plans)	9,047	8,081
Housing funds	4,063	3,684
Labour union fee and staff education expenses	2,651	2,590
Other social security and benefit costs	11,205	10,118
Total	175,737	161,751

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11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Name	Year ended 31 December 2017				Total
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
Executive Directors					
Wang Yingli	–	–	97	–	97
Wan Zhong	–	585	1,956	122	2,663
Non-Executive Directors					
Xiao Hua (i)	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Wang Liang (ii)	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing	100	–	–	–	100
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	1,481	1,447	77	3,005
Li Aiping	–	393	493	68	954
Zuo Hui	–	393	684	68	1,145
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Guan Wei (iii)	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Ding Jian (iv)	–	–	–	–	–
Total	300	2,852	4,677	335	8,164

(i) Xiao Hua was elected non-executive director effective in June 2017.

(ii) Wang Liang ceased to be non-executive director effective in June 2017.

(iii) Guan Wei was elected supervisor effective in June 2017.

(iv) Ding Jian ceased to be supervisor effective in June 2017.

Discretionary bonuses are based on the business performance and government guidelines.

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11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (Continued)

Name	Year ended 31 December 2016				Total
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
Executive Directors					
Wang Yingli (i)	–	–	974	–	974
Wan Zhong (ii)	–	311	636	23	970
Non-Executive Directors (x)					
Wang Liang	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Chen Daojiang (iii)	–	–	–	–	–
Zhang Shouhe (iii)	–	–	–	–	–
Wang Yuepu (iii)	–	–	–	–	–
Independent Non-Executive Directors					
Zhao Changyi (iv)	50	–	–	–	50
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing (v)	25	–	–	–	25
Supervisors (xi)					
Wu Chen	–	–	–	–	–
Tian Zhiguo (xii)	–	940	1,047	95	2,082
Li Aiping (xii)	–	432	432	80	944
Zuo Hui (xii)	–	433	610	85	1,128
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Ding Jian	–	–	–	–	–
Xu Linhui (vi)	–	–	–	–	–
Hou Zhenkai (vii)	–	–	–	–	–
Chen Baoqing (viii)	–	–	–	–	–
Wang Yuepu (ix)	–	–	–	–	–
Total	275	2,116	3,699	283	6,373

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11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (Continued)

Notes:

- (i) From the year 2016, Wang Yingli's emoluments started to be paid by Shandong Luxin Investment Holdings Group Co., Ltd ("Lucion Group"). Discretionary bonuses paid in year ended 31 December 2016 by the Company represents deferred discretionary bonuses of previous years.
- (ii) Wan Zhong was elected director effective in July 2016. Wan Zhong is also the senior management of the Company and his emolument disclosed above only includes that for services rendered by him as the senior management.
- (iii) Chen Daojiang, Zhang Shouhe and Wang Yuepu ceased to be directors effective in July 2016.
- (iv) Zhao Changyi ceased to be independent non-executive director in July 2016.
- (v) Meng Rujing was elected director effective in September 2016.
- (vi) Xu Linhui ceased to be supervisor effective in May 2016.
- (vii) Hou Zhenkai was elected supervisor effective in May 2016.
- (viii) Chen Baoqing ceased to be supervisor effective in July 2016.
- (ix) Wang Yuepu ceased to be director and elected supervisor effective in July 2016.
- (x) These Non-executive Directors of the Company did not receive any fees from the Company.
- (xi) The non-employee Supervisors of the Company did not receive any fees from the Company.
- (xii) These Supervisors are the employees of the Company and their emoluments disclosed above only include fees for their services as employees.

Discretionary bonuses are based on the business performance and government guidelines.

(b) Five highest paid individuals

For the year ended 31 December 2017 the five highest paid individuals in the Group do not include any director or supervisor, whose emoluments have been disclosed above (for the year ended 31 December 2016: no director and supervisor).

The emoluments of the five highest paid individuals for the the year ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
Salaries and allowances and benefits	12,718	11,794
Discretionary bonuses	25,654	30,761
Contribution to pension schemes	369	493
Total	38,741	43,048

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11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of Individuals	
	Year ended 31 December	
	2017	2016
RMB500,001 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	–	–
RMB1,500,001 – RMB2,000,000	–	–
RMB2,000,001 – RMB2,500,000	–	–
RMB2,500,001 – RMB3,000,000	–	–
RMB3,000,001 – RMB3,500,000	–	–
RMB3,500,001 – RMB4,000,000	–	–
RMB4,000,001 – RMB4,500,000	1	–
RMB4,500,001 – RMB5,000,000	–	–
RMB5,000,001 – RMB5,500,000	–	–
RMB5,500,001 – RMB6,000,000	1	2
Above RMB6,000,000	3	3
Total	5	5

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

12 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended 31 December	
	2017	2016
Net charge of impairment allowance on loans to customers		
– Collectively assessed (Note 18(c))	48,010	14,380
– Individually assessed (Note 18(c))	139,293	24,087
Net charge of impairment allowance on investments classified as loans and receivables		
– Collectively assessed (Note 19(b))	1,215	2,051
– Individually assessed (Note 19(b))	11,404	–
Impairment losses on available-for-sale equity instrument (Note 17)	28,536	–
Total	228,458	40,518

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
Current income tax	275,854	178,976
Deferred income tax (Note 21)	(51,245)	65,123
Total	224,609	244,099

Current income tax is calculated based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the respective years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

13 INCOME TAX EXPENSE (CONTINUED)

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2017	2016
Profit before income tax	1,119,414	1,077,128
Tax calculated at a tax rate of 25%	279,854	269,282
Tax effect arising from income not subject to tax (i)	(68,387)	(36,671)
Tax effect of expenses that are not deductible for tax purposes (ii)	13,143	11,488
Income tax expense	224,609	244,099

(i) The income not subject to tax mainly represents the share of profit from investments accounted for using equity method.

(ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which exceed the tax deduction limits pursuant to the relevant PRC tax rules and regulations.

14 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2017	2016
Net profit attributable to shareholders of the Company	894,805	833,029
Weighted average number of ordinary shares in issue	2,038,679	2,000,000
Basic earnings per share	0.44	0.42

(b) Diluted earnings per share

For the years ended 31 December 2016 and 2017, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Equipment	Furniture and others	Total
Cost					
At 1 January 2017	138,374	3,847	8,965	852	152,038
Additions	–	–	1,844	1,476	3,320
Disposals	–	–	–	–	–
At 31 December 2017	138,374	3,847	10,809	2,328	155,358
Accumulated depreciation					
At 1 January 2017	(19,124)	(2,727)	(5,228)	(443)	(27,522)
Charge for the year	(5,740)	(370)	(1,569)	(65)	(7,744)
Disposals	–	–	–	–	–
At 31 December 2017	(24,864)	(3,097)	(6,797)	(508)	(35,266)
Net book value					
At 31 December 2017	113,510	750	4,012	1,820	120,092
Cost					
At 1 January 2016	37,582	5,874	9,723	812	53,991
Additions	100,792	–	699	40	101,531
Disposals	–	(2,027)	(1,457)	–	(3,484)
At 31 December 2016	138,374	3,847	8,965	852	152,038
Accumulated depreciation					
At 1 January 2016	(17,005)	(4,314)	(4,516)	(329)	(26,164)
Charge for the year	(2,119)	(380)	(2,125)	(114)	(4,738)
Disposals	–	1,967	1,413	–	3,380
At 31 December 2016	(19,124)	(2,727)	(5,228)	(443)	(27,522)
Net book value					
At 31 December 2016	119,250	1,120	3,737	409	124,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) The amounts recognised in the balance sheet are as follows:

	31 December	
	2017	2016
Associates of the Company		
Fullgoal Fund Management Co., Ltd. (i)	473,176	409,979
Dezhou Bank Co., Ltd. ("Dezhou Bank") (ii)	139,152	142,414
First-Trust Fund Management Co., Ltd. ("First-trust FMC") (iii)	105,642	115,336
Shandong HOWO Auto Finance Co., Ltd. (iv)	169,887	152,004
Zouping SPD Rural Bank Co., Ltd. (viii)	26,157	25,869
Taishan Property & Casualty Insurance Co., Ltd.(v)	211,147	–
Gross amount	1,125,161	845,602
Less: Impairment allowance	–	–
Associates of the Company, net	1,125,161	845,602
Associates of the Company's certain consolidated structured entities		
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") (vi)	618,730	575,500
Tailong Health Industry Investment Company Limited ("Tailong Health") (vii)	80,000	80,000
Others (viii)	78,143	65,000
Gross amount	776,873	720,500
Less: Impairment allowance	–	–
Associates of the Company's certain consolidated structured entities, net	776,873	720,500
Total	1,902,034	1,566,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates

Set out below are the associates of the Group as at 31 December 2017 which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Measurement method
Fullgoal Fund Management Co., Ltd. (i)	Shanghai, China	16.68%	Equity
Dezhou Bank Co., Ltd. (ii)	Shandong, China	3.42%	Equity
First-Trust FMC (iii)	Shanghai, China	45.00%	Equity
Shandong HOWO Auto Finance Co., Ltd. (iv)	Shandong, China	30.00%	Equity
Taishan Property & Casualty Insurance Co., Ltd. (v)	Shandong, China	9.85%	Equity
Shandong AMC (vi)	Shandong, China	4.95%	Equity
Tailong Health (vii)	Zhejiang, China	40.00%	Equity

The Group has one seat on the board of Fullgoal Fund Management Co., Ltd., Dezhou Bank Co., Ltd., Taishan Property & Casualty Insurance Co., Ltd. and Shandong AMC, and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over these entities, even though it only holds 16.68%, 3.42%, 9.85% and 4.95% of the voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates

(i) Fullgoal Fund Management Co., Ltd.

Summarised balance sheet

	31 December	
	2017	2016
Current assets	3,460,735	3,501,879
Non-current assets	720,294	830,934
Total assets	4,181,029	4,332,813
Current liabilities	(1,014,238)	(1,569,362)
Non-current liabilities	(329,152)	(304,807)
Total liabilities	(1,343,390)	(1,874,169)
Net assets	2,837,639	2,458,644

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	2,345,092	2,479,228
Profit from continuing operations	947,517	1,005,341
Post-tax profit from continuing operations	714,978	756,330
Other comprehensive income	(5,983)	(44,277)
Total comprehensive income	708,995	712,053
Dividends received/receivable from associate	55,028	129,065

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(i) Fullgoal Fund Management Co., Ltd. (Continued)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate.

Summarised financial statements

	31 December	
	2017	2016
Net assets at the beginning of the year	2,458,644	2,520,591
Profit for the year	714,978	756,330
Dividend distribution	(330,000)	(774,000)
Other comprehensive income	(5,983)	(44,277)
Net assets at the end of the year	2,837,639	2,458,644
Percentage of the Group's interests in the associate	16.68%	16.68%
Carrying amount of the Group's interest in the associate	473,176	409,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(ii) Dezhou Bank

Summarised balance sheet

	31 December	
	2017	2016
Total assets	45,317,441	46,828,747
Total liabilities	(41,841,236)	(43,501,319)
Net assets	3,476,205	3,327,428

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	935,131	1,331,734
Profit from continuing operations	89,712	194,559
Post-tax profit from continuing operations	67,284	145,919
Other comprehensive income	(143,515)	(84,084)
Total comprehensive income	(76,231)	61,835
Dividends received from the associate	–	–

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(ii) Dezhou Bank (Continued)

Summarised financial statements

	31 December	
	2017	2016
Net assets at the beginning of the year	3,327,428	3,265,593
Profit for the year	67,284	145,919
Dividend distribution	–	–
Other comprehensive income	(143,515)	(84,084)
Others	7	–
Net assets at the end of the year	3,251,204	3,327,428
Percentage of the Group's interests in the associate	4.28%	4.28%
Carrying amount of the Group's interest in the associate	139,152	142,414

Note: Dezhou Bank was invested by other investors on 28 December 2017 which increased its share capital by RMB225 million and diluted the Company's share from 4.28% to 3.42%. The event does not have material impact on the investment income picked up by the Company for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(iii) First-Trust FMC

Summarised balance sheet

	31 December	
	2017	2016
Current assets	240,186	126,793
Non-current assets	212,396	252,717
Total assets	452,582	379,510
Current liabilities	(139,059)	(39,224)
Non-current liabilities	(78,764)	(83,983)
Total liabilities	(217,823)	(123,207)
Net assets	234,759	256,303

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	84,960	122,617
Loss from continuing operations	(27,303)	(9,897)
Post-tax (loss)/profit from continuing operations	(23,203)	1,749
Other comprehensive income/(loss)	1,661	(20,843)
Total comprehensive income	(21,542)	(19,094)
Dividends received from the associate	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(iii) First-Trust FMC (Continued)

Summarised statement of comprehensive income (Continued)

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associate.

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

Summarised financial statements

	31 December	
	2017	2016
Net assets at the beginning of the year	256,303	275,397
(Loss)/Profit for the year	(23,203)	1,749
Dividend distribution	–	–
Other comprehensive income/(loss)	1,661	(20,843)
Net assets at the end of the year	234,761	256,303
Percentage of the Group's interests in the associate	45.00%	45.00%
Carrying amount of the Group's interest in the associate	105,642	115,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(iv) *Shandong HOWO Auto Finance Co., Ltd.*

Summarised balance sheet

	31 December	
	2017	2016
Current assets	3,571,166	300,806
Non-current assets	1,964,553	1,626,839
Total assets	5,535,719	1,927,645
Current liabilities	(4,969,430)	(1,420,966)
Non-current liabilities	–	–
Total liabilities	(4,969,430)	(1,420,966)
Net assets	566,289	506,679

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	269,195	60,314
Profit from continuing operations	80,098	8,256
Post-tax profit from continuing operations	59,610	5,220
Other comprehensive income	–	–
Total comprehensive income	59,610	5,220

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(iv) Shandong HOWO Auto Finance Co., Ltd. (Continued)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

Summarised financial statements

	31 December	
	2017	2016
Net assets at the beginning of the year	506,679	501,459
Profit for the year	59,610	5,220
Capital contribution received	–	–
Dividend distribution	–	–
Other comprehensive income	–	–
Net assets at the end of the year	566,289	506,679
Percentage of the Group's interests in the associate	30.00%	30.00%
Carrying amount of the Group's interest in the associate	169,887	152,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(v) Taishan Property & Casualty Insurance Co., Ltd.

Summarised balance sheet

	31 December 2017
Current assets	1,948,509
Non-current assets	1,879,981
Total assets	3,828,490
Current liabilities	(1,912,059)
Non-current liabilities	(1,162)
Total liabilities	(1,913,221)
Net assets	1,915,269

Summarised statement of comprehensive income

	Year ended 31 December 2017
Revenue	1,690,658
Profit from continuing operations	26,370
Post-tax profit from continuing operations	25,671
Other comprehensive income	(60,647)
Total comprehensive income	(34,976)

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(v) Taishan Property & Casualty Insurance Co., Ltd. (Continued)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

Summarised financial statements

	31 December 2017
Net assets at the beginning of the year	1,950,244
Including Net assets attributable to minority shareholders	52,213
Profit for the year	25,671
Including Profit attributable to minority shareholders	1,374
Other comprehensive income	(60,647)
Net assets at the end of the year	1,915,269
Including Net assets attributable to minority shareholders	53,587
Percentage of the Group's interests in the associate	9.85%
Carrying amount of the Group's interest in the associate	211,147
Including Goodwill	27,771

Note: The associate was reclassified from Available-for-sale to Long-term investment in August 2017 with carrying amount of RMB212.34 million, because the Group obtained one seat of the board of Taishan Property & Casualty Insurance Co., Ltd. in August 2017 and has been able to exercise significant influence on the investee's financial and operational decision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vi) Shandong AMC

Summarised balance sheet

	31 December	
	2017	2016
Current assets	16,390,978	24,784,913
Non-current assets	18,312,318	1,130,207
Total assets	34,703,296	25,915,120
Current liabilities	(9,016,299)	(688,549)
Non-current liabilities	(13,879,501)	(14,176,957)
Total liabilities	(22,895,800)	(14,865,506)
Net assets	11,807,495	11,049,614
Including: Net assets attributable to Type C shareholders	8,397,252	7,838,579

Summarised statement of comprehensive income

	31 December 2017
Revenue	1,638,274
Profit from continuing operations	1,009,818
Post-tax profit from continuing operations	778,809
Including: Post-tax profit attributable to Type C shareholders	558,673
Other comprehensive income	21,370
Total comprehensive income	800,179

Note: The associate was newly acquired on 27 December 2016, the summarised statement of comprehensive income of the associate for the period from the acquisition date to the year ended 31 December 2016 is not provided as the amount is not material to the Group's Financial Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vi) Shandong AMC (Continued)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

Summarised financial statements

	31 December	
	2017	2016
Closing net assets attributable to Type C shares	8,397,252	7,799,817
Percentage of the Group's interests in Type C shares	7.24%	7.24%
Group's share in the associate	607,625	564,395
Goodwill	11,105	11,105
Carrying amount of the Group's interest in the associate	618,730	575,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vi) Shandong AMC (Continued)

Summarised financial statements (Continued)

	31 December 2017
Net assets attributable to Type C shareholders at the beginning of the period	7,838,579
Post-tax profit attributable to Type C shareholders	558,673
Other Comprehensive Income	–
Closing net assets attributable to Type C shareholders	8,397,252
Percentage of the Group's interests in the associate	7.24%
Group's share in the associate	607,625
Goodwill	11,105
Carrying amount of the Group's interest in the associate	618,730

Note: The Group invests in the Type C shares of Shandong AMC. Shandong AMC's profit distribution is not proportional to each shareholder's ownership percentage. For type A and B shareholders, if Shandong AMC decides to distribute its profit, they are entitled only to a fixed rate of return. A certain portion of the remaining distributable profit will be further distributed to Type C shareholders. Thus, only movement of net assets attributable to Type C shareholders is disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vii) Tailong Health

Summarised balance sheet

	31 December	
	2017	2016
Current assets	90,734	91,014
Non-current assets	99,946	100,986
Total assets	190,680	192,000
Current liabilities	(75)	(23)
Non-current liabilities	(11,700)	(13,000)
Total liabilities	(11,775)	(13,023)
Net assets	178,905	178,977

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
Revenue	1,837	–
Loss from continuing operations	(73)	(565)
Post-tax loss from continuing operations	(73)	(565)
Other comprehensive income	–	–
Total comprehensive income	(73)	(565)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vii) Tailong Health (Continued)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate.

Summarised financial statements

	31 December	
	2017	2016
Net assets at the beginning of the year	178,977	99,542
Loss for the year	(73)	(565)
Capital contribution received	–	80,000
Dividend distribution	–	–
Other comprehensive income	–	–
Closing net assets	178,904	178,977
Percentage of the Group's interests in the associate	40.00%	44.44%
Carrying amount of the Group's interest in the associate	80,000	80,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(viii) Summarised financial statements for insignificant associates

	31 December	
	2017	2016
Carrying amount at the beginning of the year	90,869	52,562
Acquisition during the year	18,500	51,000
Disposal during the year	–	(12,466)
Share of net profits for the year	(4,351)	1,052
Share of other comprehensive income for the year	–	–
Cash dividend receivable/received	(718)	(1,279)
Carrying amount at the end of the year	104,300	90,869

Note: The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December	
	2017	2016
Listed equity shares (at fair value) (i)	5,431	42,408
Unlisted financial instruments (at fair value)		
– Equity investments in unlisted companies (ii)	113,161	347,718
– Mutual funds	276,832	262,629
– Asset management products (iii)	167,729	155,646
– Trust Industry Protection Fund (iv)	68,626	57,800
– Others	4,442	–
Total	636,221	866,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

- (i) As at 31 December 2017, listed equity shares at the fair value of RMB3,799 thousand are restricted for sale until 1 August 2018 (As at 31 December 2016, listed equity shares at the fair value of RMB33,632 thousand are restricted for sale until 1 August 2017).
- (ii) These equity investments are the Company's investments in other non-listed companies without control, common control and significant influence by the Company. The Company uses the valuation techniques to determine the fair value of these equity investments.
- (iii) The amounts mainly represent the Company's investments in certain asset management products launched by securities firms in the PRC. The fair value of these investments in asset management products is determined based on the net asset value provided by the securities firms.
- (iv) In accordance with the notice "Administrative rule of Trust Industry Protection Fund" jointly issued by the CBRC and Ministry of Finance of the PRC ("MOF") on 10 December 2014 (YJF[2014]No. 50) and relevant requirements in the notice issued by the CBRC on 25 February 2015 (YJBF[2015]No. 32) concerning Detailed Procedures of Collection and Administration of Trust Industry Protection Fund, trust companies in China are required to make contributions to the Trust Industry Protection Fund ("the Fund") that was established and managed by China Trust Protection Fund Co., Ltd., a company established jointly by China Trust Association and certain trust companies in China. The amount of contributions to the Fund consists of the following components:
 - 1% of the trust company's net assets at the end of proceeding financial year as each trust company's own contribution;
 - 1% of total proceeds received from issuance of each trust product. For financing trust schemes, the Fund is subscribed by the borrower through the trust company; For trust products which invest in standardized financial products, the Fund is contributed by the trust company;
 - For non-cash asset related trust products, the Fund is contributed by the trust company at 5% of total trustee's remuneration.

The Fund can only be utilised when the trust company has entered into restructuring, bankruptcy, liquidation or liquidity crisis due to continuous operating losses. The Fund can be invested in bank deposits, inter-bank market, government bonds, PBOC notes, financial bonds, money market funds etc.

The Company has classified its own contribution to the Fund as available-for-sale financial assets as of 31 December 2016 and 2017.

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17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The movement in allowance for impairment losses are analysed as follow:

	Listed Shares	Unlisted financial instruments	Total
Balance as of 1 January 2017	2,670	8,787	11,457
Net impairment allowance charged to profit or loss	11,416	17,120	28,536
Transfer out	(2,670)	(8,787)	(11,457)
Balance as of 31 December 2017	11,416	17,120	28,536

	Listed Shares	Unlisted financial instruments	Total
Balance as of 1 January 2016	11,624	45,081	56,705
Net impairment allowance charged to profit or loss	-	-	-
Transfer out	(8,954)	(22,494)	(31,448)
Write off (i)	-	(13,800)	(13,800)
Balance as of 31 December 2016	2,670	8,787	11,457

- (i) The amount written off represents the investment in Tiantong Securities Co., Ltd. (Tiantong Securities). Tiantong Securities has suspended operation since 2006. On 18 March 2016, the board of directors resolved to write off this investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

18 LOANS TO CUSTOMERS

(a) Analysis of loans to customers:

	31 December	
	2017	2016
Corporate loans	6,581,191	4,259,691
Less: allowance for impairment losses		
– Collectively assessed	(114,726)	(66,716)
– Individually assessed	(284,033)	(144,740)
	(398,759)	(211,456)
Loans to customers, net	6,182,432	4,048,235
Presented as:		
Non-current assets	3,196,960	3,133,438
Current assets	2,985,472	914,797
Loans to customers, net	6,182,432	4,048,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 LOANS TO CUSTOMERS (CONTINUED)

(b) Analysed by collective and individual allowance assessments

31 December 2017

	Loans for which allowance is collectively assessed (i)	Identified impaired loans (ii)			Subtotal	Total	Identified impaired Gross loans as a % of total gross loans to customers
		For which allowance is collectively assessed	For which allowance is individually assessed				
Loans to customers, gross	5,736,300	–	844,891	844,891	6,581,191	12.84%	
Less: Allowance for impairment	(114,726)	–	(284,033)	(284,033)	(398,759)		
Loans to customers, net	5,621,574	–	560,858	560,858	6,182,432		

31 December 2016

	Loans for which allowance is collectively assessed (i)	Identified impaired loans (ii)			Subtotal	Total	Identified impaired Gross loans as a % of total gross loans to customers
		For which allowance is collectively assessed	For which allowance is individually assessed				
Loans to customers, gross	3,985,800	–	273,891	273,891	4,259,691	6.43%	
Less: Allowance for impairment	(66,716)	–	(144,740)	(144,740)	(211,456)		
Loans to customers, net	3,919,084	–	129,151	129,151	4,048,235		

(i) Loans for which allowance was collectively assessed consist of loans which have not been identified as impaired.

(ii) Identified impaired loans include loans for which objective evidence of impairment exists and impairment loss has been identified. The allowance for impairment is measured individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

18 LOANS TO CUSTOMERS (CONTINUED)

(c) Movements on allowance for losses on loans to customers by collective and individual assessments

	Year ended 31 December			
	2017		2016	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the year	66,716	144,740	52,336	464,024
Net impairment allowances charged to profit or loss (Note 12)	48,010	139,293	14,380	24,087
Transfer out (i)	–	–	–	(343,371)
Balance at end of the year	114,726	284,033	66,716	144,740

(i) In March 2017, the Group disposed certain loans to Shandong AMC with carrying amount of RMB600,000 thousand (Note 36(e)(i))(2016: RMB277,100 thousand). The transfer did not result in any significant gain or loss.

In January 2016, the Group disposed of certain loans to Lucion Group at the price of its carrying amount of RMB257,757 thousand (Note 36(e)(i)). The transfer did not result in any significant gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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19 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

(a) Investments classified as loans and receivables are analysed as follows:

	31 December	
	2017	2016
Investments classified as loans and receivables, gross (i)	260,296	184,330
Less: Allowance for impairment losses		
Collectively assessment	(4,902)	(3,687)
Individually assessment	(11,404)	–
Investments classified as loans and receivables, net	243,990	180,643
Presented as:		
Non-current assets	223,511	43,443
Current assets	20,479	137,200
Investments classified as loans and receivables, net	243,990	180,643

(i) Investments classified as loans and receivables consist of the Company's investments in those unconsolidated trust schemes established and managed by the Company. The underlying assets of these trust schemes are loans to customers.

Investments classified as loans and receivables with amount of RMB15 million was impaired as of 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

19 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES (CONTINUED)

- (b) Movements on allowance for losses on investments classified as loans and receivables

	Year ended 31 December			
	2017		2016	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the year	3,687	–	1,636	–
Net impairment allowances charged to profit or loss (Note 12)	1,215	11,404	2,051	–
Balance at end of the year	4,902	11,404	3,687	–

20 ADVANCE PAYMENTS

	31 December	
	2017	2016
Prepayment for purchasing property	15,849	–
Other	3,144	2,788
Total	18,993	2,788

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For the year ended 31 December 2017
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21 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes related to income taxes levied by the same taxation authority. The movements for deferred tax assets and liabilities recognised are as follows:

	At 1 January 2017	Charged to profit or loss	Charged to other comprehensive income	At 31 December 2017
Deferred income tax assets:				
Impairment allowances for assets	21,912	45,523	–	67,435
Staff Salary and welfare payable	17,736	2,770	–	20,506
Others	396	148	–	544
Subtotal	40,044	48,441	–	88,485
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(139)	2,804	–	2,665
Fair value changes of available-for- sale financial assets	(21,420)	–	4,978	(16,422)
Subtotal	(21,559)	2,804	4,978	(13,777)
Net deferred income tax assets	18,485	51,245	4,978	74,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts expressed in thousands of RMB unless otherwise stated)

21 DEFERRED INCOME TAXES (CONTINUED)

	At 1 January 2016	Charged to profit or loss	Charged to other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Impairment allowances for assets	110,764	(88,852)	–	21,912
Staff Salary and welfare payable	10,037	7,699	–	17,736
Others	336	60	–	396
Subtotal	121,137	(81,093)	–	40,044
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(16,109)	15,970	–	(139)
Fair value changes of available-for-sale financial assets	(45,895)	–	24,475	(21,420)
Subtotal	(62,004)	15,970	24,475	(21,559)
Net deferred income tax assets	59,133	(65,123)	24,475	18,485

22 OTHER NON-CURRENT ASSETS

	31 December	
	2017	2016
Investment in art work	71,357	72,048
Trust Industry Protection Fund (i)	276,730	205,063
Total	348,087	277,111

(i) Trust Industry Protection Fund

The amount represents the receivable from the borrowers for subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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23 CASH AND BANK BALANCE

(a) Cash and bank balance

	31 December	
	2017	2016
Cash in hand	62	29
Cash at banks	1,172,746	274,457
Total	1,172,808	274,486

(b) Cash and cash equivalents in the consolidated statements of cash flow

	31 December	
	2017	2016
Cash in hand	62	29
Cash at banks	1,172,746	274,457
Total	1,172,808	274,486

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2017	2016
Financial assets held for trading		
Equity investments		
Listed shares	18,199	25,673
Mutual funds	81,246	48,311
Subtotal	99,445	73,984
Financial assets designated at fair value through profit or loss		
Equity investments held by consolidated structured entities	323,280	231,491
Investment in trust schemes which invested in equity	30,000	–
Equity investment in an unlisted entity	32,500	–
Total	485,225	305,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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25 FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	31 December	
	2017	2016
Government bonds	951,400	298,900

26 OTHER CURRENT ASSETS

	31 December	
	2017	2016
Amount due from related parties (Note 36(e)(ii))	–	109,694
Trust Industry Protection Fund (i)	361,230	102,097
Settlement deposits with securities firms	3,482	101,007
Amount due from Government Related Entity A	–	100,000
Input VAT to be deducted	–	1,945
Others, net	22,865	33,908
Others, gross	25,994	37,037
Less: Individual impairment allowance	(3,129)	(3,129)
Total	387,577	448,651

(i) Trust Industry Protection Fund

The amount represents the receivable from the borrowers for subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 SHARE CAPITAL AND CAPITAL RESERVE

In July 2015, the Company was transformed from a limited liability company into a joint stock limited company by means of RMB1 yuan of paid-in capital in exchange for one common share. As of 31 December 2016 all shares of the Company issued were fully paid common shares, with par value of RMB1 yuan per share. In December 2017 the Company was listed on the Hong Kong Stock Exchange with 588,250,000 shares newly issued. All shares of the Company issued are fully paid common shares. The par value per share is RMB1 Yuan. The Company's shares are as follows:

	31 December	
	2017	2016
Number of shares authorized and issued (i)	2,588,250	2,000,000

	31 December	
	2017	2016
Share capital	2,588,250	2,000,000

- (i) The Company newly issued 588,250,000 H shares with par value of RMB1 per share at offering price of HKD4.56 (equivalent to RMB3.87) per share on 8 December 2017. The excess of RMB1,688,278 thousand over the par value, net of the relevant incremental costs of RMB88,930 thousand directly attributable to issued shares, was credited to "share premium".

On 19 March 2018, the Company obtained "Approval from China Banking Regulatory Commission Shandong Office on the increase of the registered capital and the change of shareholding structure of Shandong International Trust Co., Ltd."

Generally, transactions of the following nature are recorded in the capital reserve:

- Share premium arising from the issuance of share capital at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

Capital reserve can be utilized for increasing share capital as approved by the shareholders.

The Company issued shares at share premium. The share premium was recorded in the capital reserve after deducting share issue cost which mainly include underwriting fees and professional fees.

As of 31 December 2017, the Group's capital reserve is shown as follows:

	31 December	
	2017	2016
Share premium	2,215,637	616,289

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For the year ended 31 December 2017

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28 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Statutory surplus reserve (i)	Statutory general reserve (ii)
Balance at 1 January 2017	608,527	638,423
Appropriation to statutory surplus reserve	80,349	–
Appropriation to statutory general reserve	–	80,349
Balance at 31 December 2017	688,876	718,772
Balance at 1 January 2016	520,149	590,460
Appropriation to statutory surplus reserve	88,378	–
Appropriation to statutory general reserve	–	47,963
Balance at 31 December 2016	608,527	638,423

(i) Statutory surplus reserve

Pursuant to the relevant PRC regulations, the Company is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of registered capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Company's ordinary share capital. The amount of statutory surplus reserve used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital.

(ii) Statutory general reserve

General risk reserve

Pursuant to Caijin 2012 No. 20 "Requirements on General Risk Reserve for Financial Institutions" (the "Requirement") effective on 1 July 2012, the Company establishes a statutory general risk reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

Trust compensation reserve

Pursuant to Article 49 of "Administrative Rules on Trust Companies" issued by the CBRC (2007 No.2), the Company is required to appropriate 5% of its net profit to the trust compensation reserve, and such appropriation may cease when it reaches 20% of the Company's registered capital.

(iii) Profit distribution

In accordance with a resolution of the board meeting on 22 March 2018, the Board of Directors proposed to appropriate the Company's net profit for the year ended 31 December 2017 to the statutory surplus reserve in the amount of RMB80,349 thousand; appropriations RMB80,349 thousand to the statutory general reserve. Cash dividends of RMB447,767 thousand (RMB0.173 before tax per ordinary share) based on the total number of ordinary shares of 2,588,250,000 at the end of 2017 was also proposed. As at 31 December 2017, the appropriation of statutory surplus reserve and statutory general reserve proposed by the Board of Directors have been recognised in the accounts for the year ended 31 December 2017 respectively. The distribution of dividends is subject to final approval by shareholders in the Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
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29 OTHER RESERVES

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2017	72,643	(21,420)	51,223
Fair value changes in available-for-sale financial assets	(6,453)	1,614	(4,839)
Share of other comprehensive income of investments accounted for using the equity method	(6,838)	–	(6,838)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(13,461)	3,364	(10,097)
Balance at 31 December 2017	45,891	(16,442)	29,449

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2016	190,906	(45,895)	145,011
Fair value changes in available-for-sale financial assets	(71,279)	17,819	(53,460)
Share of other comprehensive income of investments accounted for using the equity method	(20,361)	–	(20,361)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(26,623)	6,656	(19,967)
Balance at 31 December 2016	72,643	(21,420)	51,223

30 DIVIDENDS

	Year ended 31 December	
	2017	2016
Dividend declared during the year	254,213	395,597

Under the PRC Company Law and the Company's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Company; and
- Appropriation to the statutory general reserve.

In accordance with the relevant regulations, after the Company's initial public offering, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the retained profit determined in accordance with the PRC trust regulations and (ii) the retained profit determined in accordance with IFRS.

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31 NET ASSETS ATTRIBUTABLE TO OTHER BENEFICIARIES OF CONSOLIDATED STRUCTURED ENTITIES

Net assets attributable to other beneficiaries of consolidated structured entities represent other beneficiaries' share of net assets of the Company's consolidated structured entities.

32 SHORT-TERM BORROWINGS

	31 December	
	2017	2016
Borrowings from China Trust Protection Fund Co., Ltd.	328,000	500,000

To further expand proprietary business, the Company obtained two borrowings from China Trust Protection Fund Co., Ltd. with the principal amounts of RMB60 million and RMB268 million and annual interest rate of 6.60% and 6.70% in September 2017 and December 2017, respectively.

33 OTHER CURRENT LIABILITIES

	31 December	
	2017	2016
Payable to National Social Security Fund (i)	227,452	117
Subscription amount of Trust Industry Protection Fund collected from borrowers (ii)	133,582	58,685
Other tax payable	44,494	39,474
Deferred trustee's remuneration fee income	37,633	26,333
Others	31,418	1,652
Total	474,579	126,261

(i) The amounts represents proceeds in relation to transfer of the Company's share to National Social Security Funds.

(ii) The amounts represents the subscription amounts collected by the Company from the borrowers of its financing trust schemes, which will then be contributed to the Trust Industry Protection Fund on behalf of such borrowers.

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34 STRUCTURED ENTITIES

(a) Structured entities that are not consolidated

(i) *Unconsolidated structured entities managed by the Company*

The unconsolidated structured entities managed by the Group are trust schemes established and managed by the Group as trustee. Based on the analysis and research of the potential target customers, the Company designs and offers trust products to meet the needs of its customers. The proceeds raised are then invested in relevant financial markets or financial products in accordance with the contractual terms of the trust agreements. Investment return shall be allocated to investors according to the contractual agreements. The Company receives remuneration as the trustee of these trust schemes, and gets investment return from the trust schemes in which the Group has made direct investment. The Company considered its variable returns (being the trustee's remunerations and investment return if any, on an aggregate basis) from its involvement with these structured entities are insignificant and hence it does not consolidate these structured entities.

As of 31 December 2017, the volume of unconsolidated trust schemes established and managed by the Company amounted to RMB256,326 million (31 December 2016: RMB249,202 million). The Company's maximum exposure to these unconsolidated structured entities is the trustee's remuneration receivables and the amounts of such receivables is RMB314,999 thousand at 31 December 2017 (31 December 2016: RMB203,089 thousand).

During the year ended 31 December 2017, the Group did not provide financial or other support to these structured entities (2016: nil).

(ii) *Unconsolidated structured entities invested by the Company*

As of 31 December 2016 and 31 December 2017, the Company invested in a number of unconsolidated trust schemes established and managed by the Company or other structured entities established and managed by third parties. These investments in unconsolidated structured entities are classified as financial assets at fair value through profit or loss, available-for-sale financial assets and investments classified as loans and receivables.

During the year ended 31 December 2017, the Group did not provide financial or other support to these structured entities (2016: nil).

The table below sets out the carrying value and the Group's maximum exposure (including interest receivable) to these unconsolidated structured entities.

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34 STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities that are not consolidated (Continued)

(ii) Unconsolidated structured entities invested by the Company (Continued)

	Carrying value	Maximum exposure to loss	Total volume of structured entities
At 31 December 2017			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	81,246	81,246	Note 1
– Investment in trust schemes which invested in equity	30,000	30,000	40,000
Available-for-sale financial assets			
– Mutual funds managed by third parties	276,832	276,832	Note 1
– Asset management products managed by third parties	167,729	167,729	Note 1
– Trust Industry Protection Fund managed by third parties	68,626	68,626	Note 1
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	243,990	243,990	2,743,000
At 31 December 2016			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	48,311	48,311	Note 1
Available-for-sale financial assets			
– Mutual funds managed by third parties	262,629	262,629	4,533,820
– Asset management products managed by third parties	155,646	155,646	Note 1
– Trust Industry Protection Fund managed by third parties	57,800	57,800	Note 1
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	180,643	180,643	1,660,000

Note 1: Total volume of these asset management products, trust schemes and Trust Industry Protection Fund is not available in the public information.

The Group earns remuneration for providing services to trust schemes established and managed by the Company.

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34 STRUCTURED ENTITIES (CONTINUED)

(b) Consolidated structured entities

Consolidated structured entities include trust schemes established and managed by the Group in which the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests that it holds in the structured entities. The underlying assets of these consolidated structured entities are mainly included in the balances of loans to customers, investments accounted for using the equity method and financial assets at fair value through profit or loss.

At 31 December 2017, the number of consolidated trust schemes established and managed by the Company were 45 (31 December 2016: 36) and total volume of consolidated trust schemes amounted to RMB6,957,568 thousand (31 December 2016: RMB5,209,975 thousand).

While the Group has no contractual obligation to provide liquidity or other support to any trust that may not be able to collect all payments from the counterparty according to its contract before the trust expiration date (the "troubled trusts"), the Group may at its discretion use its own funds to facilitate the distributions to other beneficiaries at maturity of trust schemes, after evaluating the likelihood of ultimate repayments from borrowers or other sources and considering other factors such as potential reputational damage to the Company. As soon as those troubled trusts met the criteria of consolidated structured entities, the Group then consolidates these troubled trusts. As at 31 December 2017, total assets of such troubled trusts amounted to RMB274,078 thousand (31 December 2016: 257,851 thousand), and impairment allowance have been made amounted to RMB184,398 thousand (31 December 2016: 144,423 thousand).

35 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitment

	31 December	
	2017	2016
Contracted but not yet incurred	1,545	2,175

These capital commitments mainly relate to purchase of intangible assets.

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35 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Operating leasing commitment

The future minimum lease payments under irrevocable rental contracts are listed as follows:

	31 December	
	2017	2016
Within one year	594	492
Between one year and five years	417	909
Total	1,011	1,401

(c) Legal proceedings

The Group believes the legal proceedings that remains outstanding as at 31 December 2016 and 2017 which the Group and the Company are interested party would not have a material impact on its financial position or operations.

In May 2017, the People's Procuratorate of Liangshan County, Jining City in Shandong Province commenced investigation against Mr. Song Chong, a former vice general manager of the Company, and Mr. Song Chong was arrested by the People's Procuratorate of Jining City, Shandong Province in July 2017. At the date of this report, the case is in the process of being investigated by the People's Procuratorate of Liangshan County, Jining City, in Shandong Province. In addition, in May 2017, the beneficial rights of an individual administrative management trust with outstanding assets under management of RMB34 million was frozen by the Company according to the order of the People's Procuratorate of Liangshan County, Jining City in Shandong Province. At the date of this report, the outstanding assets under management of this individual administrative management trust is RMB18 million.

The directors have considered all the information available to them, including among others, legal opinion from the Company's legal counsels, and have concluded that such incident would not have material impact on the Group's financial results and financial positions as at and for the years ended 31 December 2016 and 2017.

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36 RELATED PARTY TRANSACTIONS

The Group is controlled by Lucion Group. Together with Shandong High-Tech Venture Capital, which is also controlled by Lucion Group, it aggregately owns 51.95% of the shares of the Company at 31 December 2017. Lucion Group is further controlled by Shandong State-owned Assets Supervision and Administration Commission. 23.05% of the shares of the Company are held by CNPC Assets Management Co., Ltd. ("CNPC AMC"), Shandong Gold Group Co., Ltd. ("Shandong Gold Group"), Weifang Investment Group Co., Ltd. ("Weifang Investment") and Jinan Energy Investment Co., Ltd. ("Jinan Energy Investment") at 31 December 2017 respectively. The remaining 25.00% of the shares are listed shares.

The Company's directors were of the view that Lucion Group, CNPC AMC and their subsidiaries were considered as related parties of the Group. Certain trust schemes were also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 36(d) below. The Group's transaction with related parties are conducted under the ordinary course of business.

(a) Transactions with trust schemes considered to be related parties of the Group

During the the year ended 31 December 2016 and 2017, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent ("Lucion Group").

	31 December	
	2017	2016
Number of trust schemes controlled by the Group (Note 34(b))	45	36
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	26	25

Total entrusted assets of the trust schemes controlled by Lucion Group are as follows:

	31 December	
	2017	2016
Total entrusted assets of trust schemes controlled by Lucion Group	3,866,833	5,218,177

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with trust schemes considered to be related parties of the Group (Continued)

The Group's remuneration from trust schemes controlled by Lucion Group is as follows:

	Year ended 31 December	
	2017	2016
Fee and commission income	12,820	26,827

(b) Related parties as trustors of trust schemes (including those consolidated structured entities)

During the year ended 31 December 2017 Lucion Group and its subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group. (The year ended 31 December 2016: Lucion Group, Shandong Gold Group, Weifang Investment and their subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group.)

(i) Related parties as trustors of consolidated trust schemes

Related parties' interests in these consolidated trust schemes are reported as other liabilities in the Group's consolidated statements of financial position (Note 31)

	31 December	
	2017	2016
Number of trust schemes where the related parties act as trustors	10	7
Interests of related parties in these consolidated trust schemes	135,795	193,728

Trust benefits paid or payable to related parties by consolidated trust schemes have been accounted for as interest expense (Note 9) in the Group's consolidated statements of comprehensive income:

	Year ended 31 December	
	2017	2016
Interest expense	2,501	1,355

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties as trustors of trust schemes (including those consolidated structured entities) (Continued)

(ii) Related parties as trustors of unconsolidated trust schemes of the Group

	31 December	
	2017	2016
Number of unconsolidated trust schemes where related parties acts as trustors	48	75
Assets entrusted by related parties	4,482,205	5,053,274
Total entrusted assets of these unconsolidated trust schemes	8,272,676	10,188,948

Trustee's remuneration received or receivable from such trust schemes has been accounted for as fee and commission income in the Group's consolidated statements of comprehensive income, and is illustrated below:

	Year ended 31 December	
	2017	2016
Fee and commission income	64,934	103,120

(c) Related parties financed by trust schemes

(i) Related parties financed by unconsolidated trust schemes of the Group

	31 December	
	2017	2016
Number of unconsolidated trust schemes which provide financing to related parties	26	39
Amount financed	13,067,794	13,743,769
Total entrusted assets of these unconsolidated trust schemes	13,067,794	13,743,769

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's consolidated statements of comprehensive income, and are illustrated below:

	Years ended 31 December	
	2017	2016
Fee and commission income	42,614	67,597

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Related parties transactions with key management personnel and their immediate family members

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, including directors, supervisors, and senior management personnel.

(i) Key management compensation

The compensation paid or payable to key management personnel is shown below:

	Years ended 31 December	
	2017	2016
Salaries and allowances	6,646	5,257
Discretionary bonuses	15,129	17,567
Pension	810	818
Other social security obligations	484	637
	23,069	24,279

(ii) Key management personnel and their immediate family members' personal investments in trust schemes managed by the Company

	31 December	
	2017	2016
Key management's personal investments in trust schemes	15,868	27,880
Total entrusted assets of these trust schemes	8,752,167	3,379,415

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's consolidated financial statements, and are illustrated below:

	Year ended 31 December	
	2017	2016
Fee and commission income	50,119	58,941

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions

(i) Significant transactions with related parties

During the the year ended 31 December 2017, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2017	2016
Equity investment in Shandong AMC	–	575,500
Loans sold to Shandong AMC by the Group (Note 18(c)(i))(i)	600,000	277,100
Loans sold to Shandong AMC by the Company as the trustee of unconsolidated structured entities (ii)	568,506	296,843
Loans sold to Lucion Group by the Group (Note 18(c)(i))	–	257,757
Loans sold to Lucion Group by the Company as the trustee of unconsolidated structured entities	–	89,728
Considerations received and receivable from Government Related Entity A for purchase of Company's certain construction projects	–	246,957
Directors' and senior management emoluments paid by Lucion Group on behalf of the Group	498	375
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	1,541	2,389
Advertising costs paid to Shandong Lu Xin Film Co., Ltd	143	–
Rental expense paid to Shandong Luxin Energy Investment & Management Co., Ltd.	–	996
Properties management expenses paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	8,013	9,485
Restaurant management fee paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	204	–
System maintenance expenses paid to Luxin Technology Co., Ltd.	8,783	326
Equipment and software costs paid to Luxin Technology Co., Ltd.	1,566	–
Disposal of equity interest in an associate to Shandong Luxin Financial Holdings Co., Ltd. ("Luxin Financial")	–	101,164

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions (Continued)

(i) Significant transactions with related parties (Continued)

During the the year ended 31 December 2017, the Group had the following significant transactions with related parties: (Continued)

	Year ended 31 December	
	2017	2016
Transfer equity to Lucion Group	–	12,530
Sales of available-for-sale equity investments to Shandong Luxin Culture Media Investment Group Co., Ltd.	–	12,106
Purchase of office building from Shandong Luxin Energy Investment & Management Co., Ltd.	–	97,261
System equipments paid to Luxin Technology Co., Ltd.	–	–
Product promotion fee paid to Shandong Luxin Industrial Co., Ltd.	–	43
Rental income paid by Shandong Luxin Hengsheng Property Management Co., Ltd.	145	49
Tender fee paid to Luxin International Tendering Co., Ltd.	–	513

(i) On 21 March, 2017, the Company transferred a claim with carrying amount of RMB 600,000 thousand to Shandong AMC at transfer price of RMB 600,000 thousand. Shandong AMC subsequently entrusted the above-mentioned loan property.

(ii) On 21 March 2017, the Company, as the trustee of a trust plan, transferred the trust plan loan of RMB568,506 thousand to Shandong AMC at transfer price of RMB568,506 thousand.

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36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions (Continued)

(ii) Balances with related parties

	Year ended 31 December	
	2017	2016
Amount due from related parties		
– Due from Government Related Entity A	–	100,000
– Due from Luxin Financial	–	100,164
– Due from First-trust FMC	–	6,433
– Due from Lucion Group	–	9,530
Total	–	216,127

As at 31 December 2016, all the balances with related parties were non-trade receivable/payable in nature and were not interest bearing.

(f) The Group and other government related entities

Other than disclosed above and also in other relevant notes in the financial statements, some of the trust schemes managed by the Group are entered into with government authorities, agencies, affiliates and other state controlled entities who mainly act as the trustors. Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for such kind of trust schemes, and such pricing schemes do not depend on whether or not the counterparties are government authorities, agencies, affiliates and other state controlled entities.

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37 SEGMENT ANALYSIS

(a) Operating segments

	Year ended 31 December 2017			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	1,129,771	–	1,129,771
Interest income	490,107	591	–	490,698
Net changes in fair value on financial assets at fair value through profit or loss	1,793	–	–	1,793
Investment income	21,148	–	–	21,148
Other operating income	702	3,785	–	4,487
Total operating income	513,750	1,134,147	–	1,647,897
Interest expenses	(167,731)	–	–	(167,731)
Staff costs (including directors and supervisors' emoluments)	(3,722)	(172,015)	–	(175,737)
Operating lease payments	(283)	(9,053)	–	(9,336)
Depreciation and amortisation	(276)	(8,839)	–	(9,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,831	–	–	1,831
Tax and surcharges	(1,301)	(13,258)	–	(14,559)
Auditor's remuneration	(50)	(2,308)	–	(2,358)
Other operating expenses	(1,921)	(88,774)	–	(90,695)
Impairment losses on financial assets	(228,458)	–	–	(228,458)
Total operating expenses	(401,911)	(294,247)	–	(696,158)
Share of profit from investments accounted for using the equity method	167,675	–	–	167,675
Operating profit before income tax	279,514	839,900	–	1,119,414
	31 December 2017			
	Proprietary business	Trust business	Unallocated	Total
Segment assets	11,654,757	1,201,827	45,463	12,902,047
Segment liabilities	3,715,121	37,633	1,753	3,754,507

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37 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	Year ended 31 December 2016			Total
	Proprietary business	Trust business	Unallocated	
Fee and commission income	–	827,540	–	827,540
Interest income	445,381	9,845	–	455,226
Net changes in fair value on financial assets				
at fair value through profit or loss	(81,046)	–	–	(81,046)
Investment income	84,080	–	–	84,080
Other operating income	30,970	10,611	–	41,581
Total operating income	479,385	847,996	–	1,327,381
Interest expenses	(88,097)	–	–	(88,097)
Staff costs (including directors and supervisors' emoluments)	(3,987)	(157,764)	–	(161,751)
Operating lease payments	–	(10,793)	–	(10,793)
Depreciation and amortisation	(185)	(5,499)	–	(5,684)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,316	–	–	1,316
Tax and surcharges	(11,417)	(13,225)	–	(24,642)
Other operating expenses	(1,439)	(56,893)	–	(58,332)
Impairment losses on financial assets	(40,518)	–	–	(40,518)
Total operating expenses	(144,327)	(244,174)	–	(388,501)
Share of profit from investments accounted for using the equity method	138,248	–	–	138,248
Operating profit before income tax	473,306	603,822	–	1,077,128

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37 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	Proprietary business	31 December 2016		Total
		Trust business	Unallocated	
Segment assets	7,556,853	911,818	179,352	8,648,023
Segment liabilities	2,220,112	85,018	1,769	2,306,899

38 SUBSEQUENT EVENTS

Same as disclosed in this report, the Group has no material events happened after 31 December 2017.

39 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks: market risk (primarily price risk and interest rate risk), credit risk and liquidity risk. Risk management is key to the business operation of the Group. The Group's aims to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The main business of the Group includes trust business and proprietary business. The Group considers risk monitoring, mitigation, resolution and disposition as critical procedures to manage the risk of its trust business, as any failure to identify, mitigate, resolve or dispose of risks of each trust scheme may materially and adversely affect the reputation and financial performance of the Group. The Group has established a comprehensive risk management framework which include a three-level risk management system with clear responsibilities assigned to each level as follows:

- Level 1 system is the Trust Business Committee of the board of directors which is responsible for defining the risk appetite, risk management policies and internal control policies of the Company;
- Level 2 system is at the level of senior management including the Company's General Manager, Vice General managers and the Chief Risk Officer, who are responsible for overseeing the Company's daily risk management functions and activities in accordance with the Company's risk tolerance level and risk management and internal control polices as approved by the Board of Directors;
- Level 3 system mainly refer to relevant business and functional departments of the Company, including mainly Trust Business Departments, Risk Management Department, Legal & Compliance Department and Asset Disposition Department which are mainly responsible for risks identification, mitigation, monitoring, reporting, and resolution.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk

39.1.1 Credit risk measurement

Credit risk refers to the risk that the clients or counterparties fail to fulfil contractual obligations. The Group's credit risk mainly arises from its trust business and proprietary business.

The credit risk of the Group's trust business mainly refers to the risk that the Group, as the trustee, fails to receive its due remuneration which is agreed in the trust contract with the trustors. Pursuant to the terms of trust contract, as long as the Group fulfill its duties stated in trust contract in its capacity as trustee, it is entitled to receive the remuneration specified in the trust contract. The Group has the priority over the trust beneficiaries to receive a fixed remuneration from the trust scheme's assets, which is the major source of the Company's income from the trust business. The Group's trustee remuneration receivables are included in the "trustee's remuneration receivable" in the consolidated balance sheet.

Some of the Group's trust schemes are financing trust schemes. Under such schemes, the failure of fulfilling the repayment obligations by the ultimate borrowers will negatively affect the Group's entitlement to receive its fixed and floating remuneration as stated in the trust contract. The Group assesses and manages the borrower's default risk of its financing trust scheme through initial due diligence, approval, and monitoring over the borrowers pursuant to the trust contract. The measures taken by the Group to mitigate the default risk by borrower include mainly obtaining third party guarantee and collateral as credit enhancements. In many cases where such default by borrower arises, the Group is also required by trust contract to act on the best interests of the beneficiaries by taking necessary resolution and disposition measures to minimize the loss of trust assets. However, the Group does not guarantee fixed return or compensate any investment loss to the beneficiaries of the trust, and the PRC laws and regulations also prohibit the Group from doing so. While the Group has no contractual obligation to provide liquidity or other supports to any troubled trusts, the Group may use its own funds to facilitate the distributions to other beneficiaries at maturity of trust schemes, after evaluating the likelihood of ultimate repayments from borrower or other sources and considering other factors such as potential reputational damage to the Company.

The Group's proprietary business mainly includes the Group's own debt and equity investments. The management formulates its annual investment plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board of Directors. According to such plan, the Group invests in certain trust schemes established and managed by itself, listed or unlisted equity securities, mutual funds, loans and other asset management plans. For investments in its own trust schemes, the Group assesses the significance of its variable returns from its involvement in these plans and determined whether these trust schemes need to be consolidated or not. The underlying assets of consolidated trust schemes are reported in the same balance sheet line items as the Company's own assets.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements:

	31 December	
	2017	2016
Assets		
Cash and cash equivalents	1,172,808	274,486
Financial assets purchased under agreements to resell	951,400	298,900
Loans to customers	6,182,432	4,048,235
Investments classified as loans and receivables	243,990	180,643
Trust Industry Protection Fund	637,960	307,160
Other financial assets	641,443	473,502
Total	9,830,033	5,582,926

The above table represents a worst-case scenario of credit risk exposure to the Group as of 31 December 2016 and 2017 without taking into account any related collateral or other credit enhancements. Loans to customers account for 62.68% of the Group's total credit risk exposures at 31 December 2017 (31 December 2016: 72.51%). Other major credit risk exposures include investments classified as loans and receivables, amount receivable from borrowers for subscription of contribution to the Trust Industry Protection Fund, trust remuneration receivables and other receivables included in other financial assets.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.3 Loans to customers

(a) Analysis of loans to customers by overdue and impaired status

	31 December	
	2017	2016
Neither overdue nor impaired	5,736,300	3,985,800
Impaired	844,891	273,891
Gross	6,581,191	4,259,691
Less: Collective impairment allowance	(114,726)	(66,716)
Individual impairment allowance	(284,033)	(144,740)
Total allowance	(398,759)	(211,456)
Net	6,182,432	4,048,235

(b) Loans to customers neither overdue nor impaired

87.16% of the Group's loans to customers were neither overdue nor impaired at 31 December 2017 (31 December 2016:93.57%). They can be further analysed by the type of security as follows:

	31 December	
	2017	2016
Collateralized loans	2,952,800	2,712,520
Pledged loans	683,500	437,280
Guaranteed loans	2,100,000	836,000
Unsecured loans	–	–
Gross	5,736,300	3,985,800
Less: Collective impairment allowances	(114,726)	(66,716)
Net	5,621,574	3,919,084

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.3 Loans to customers (Continued)

(c) Loans to customers that are impaired

The impaired loans to customers are all held by the Group's consolidated trust schemes as a result of liquidity and other supports provided by the Group according to their individual resolution plans established by the Group, or proprietary investment made by the Company in the trust scheme. The gross amount, individual impairment allowance and fair value of collateral held are as follows:

	31 December	
	2017	2016
Corporate loans to customers	844,891	273,891
Less: Individual impairment allowances	(284,033)	(144,740)
Net	560,858	129,151
Fair value of collateral		
Corporate loans to customers (i)	1,334,427	133,868

(i) Among these collateral, RMB968,268.6 thousand of the collateral is specified for one trust scheme.

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the collateral in current market conditions.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.3 Loans to customers (Continued)

(d) Loans to customers renegotiated

	31 December	
	2017	2016
Loans to customers renegotiated	240,000	140,000

39.1.4 Other major credit risk exposures:

	31 December	
	2017	2016
Investments classified as loans and receivables (Note 19)	243,990	180,643
Trust Industry Protection Fund	637,960	307,160
Due from Government Related Entity A	–	100,000
Due from Luxin Financial	–	100,164
Due from Lucion Group	–	9,530
Trustee's remuneration receivable	314,999	203,089
Total	1,196,949	900,586

39.2 Market risk

39.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from price risk and interest rates risk.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (Continued)

39.2.2 Price risk

Certain financial assets such as financial assets at FVPL and available for sale financial assets are measured at fair values at the end of each reporting periods. The Group is exposed to price risks that may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may result from by the factors relating to the financial instruments itself or the issuer, and it may also result from by market factors.

The Company's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of financial assets at fair value through profit or loss and available-for-sale financial assets measured at fair value on the Group's profit before tax and equity.

Profit before income tax	31 December	
	2017	2016
+1 percent	4,852	3,055
-1 percent	(4,852)	(3,055)

Equity impact before income tax	31 December	
	2017	2016
+1 percent	11,214	11,717
-1 percent	(11,214)	(11,717)

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (Continued)

39.2.3 Interest rate risk

Interest rate risk refers to the possibility that the Group's financial position and cash flow fluctuates due to changes in market interest rate. The changes in market interest rate may lead to increase or decrease in interest income of the Group, which will impact the amount of total profit and owners' equity. The Group's interest rate risk management is mainly focused on cash flow interest rate risk management.

As at 31 December 2017, the main interest bearing assets held by the Company include cash and cash equivalents and financial assets held under reverse repurchase agreements which accounts 16.46% of total assets of the Group (31 December 2016: 6.63%). The Group's cash flow interest rate risk exposures from holding these assets are not significant.

As at 31 December 2017, the Company's main interest bearing liability includes a RMB328 million short-term borrowing from China Trust Protection Fund Co., Ltd., which amounted to 8.73% of total liabilities of the Group (31 December 2016: RMB500 million, amounted to 21.67% of total liabilities of the Group).

The Group also invests in certain financing trust schemes established and managed by itself. The underlying assets of these financing trust schemes are mainly loans to customers which are priced at fixed rate through their maturities. The investors of these trust schemes including the Group are entitled to an expected investment return at a fixed rate throughout the whole investment period. The Group is not subject to significant risk from the volatility of market interest rate or changes in benchmark interest rate.

39.2.4 Foreign exchange risk

The Group's business is mainly operated in the PRC and settled in RMB. Proceeds from issuance of H shares are in HKD. As at 31 December, the Group has performed analysis and concluded that the foreign exchange risk is not material.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group forecasts its cash flows and monitors the short-term and long-term capital need to ensure it has sufficient cash reserve and securities that are readily convertible to cash. The Group holds sufficient unrestricted cash at bank and on hand to satisfy the capital need for the daily operations. As at 31 December 2017, The Group has a short-term borrowing from China Trust Protection Fund Co., Ltd. amounting to RMB328 million as disclosed in Note 32 (31 December 2016: RMB500 million).

The majority of the Group's financial liabilities on the consolidated statement of financial position are amount attributable to other beneficiaries of the trusts as a result of consolidating these trusts by the Group. The Company has no contractual obligation to provide any liquidity support to all of the trust schemes established and managed by itself. Management is of the view that the Group is not subject to significant liquidity risk given the nature of its business activities.

39.4 Capital management

The core of the Company's capital management is net capital and risk-based capital. The objective of capital management is to meet external regulatory requirements, balance the risk and return and maintain appropriate level of liquidity.

The Company prudently determines the objectives of net capital and risk-based capital management which meet the regulatory requirements and are in line with its own risk exposure. Generally, the measures of capital management includes adjustment of dividend distribution and raising new capital.

The Company monitors the net capital and risk-based capital regularly based on regulations issued by the CBRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBRC on a quarterly basis. Total risk-based capital is defined as the sum of (i) risk-based capital of our proprietary business; (ii) risk-based capital of our trust business, and (iii) risk-based capital of our other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for our proprietary business, and 0.1% to 9.0% for our trust business.

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39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balance, financial assets purchased under agreements to resell, loans to customers, investments classified as loans and receivables, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 31 December 2017 and 31 December 2016, their fair value approximate carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities (Continued)

(c) *Financial instruments measured at fair value*

31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Listed shares	18,199	–	–	18,199
– Mutual funds	81,246	–	–	81,246
– Equity investment in an unlisted company	–	–	32,500	32,500
– Investment in trust schemes which invested in equity	30,000	–	–	30,000
– Financial assets held by certain consolidated structured entities	223,280	–	100,000	323,280
Available-for-sale financial assets				
– Listed shares	1,632	3,799	–	5,431
– Mutual funds	276,832	–	–	276,832
– Equity investments	–	–	113,161	113,161
– Asset management products	–	–	167,729	167,729
– Trust Industry Protection Fund	–	–	68,626	68,626
– Financial assets held by certain consolidated structured entities	–	–	4,442	4,442
Total	631,189	3,799	486,458	1,121,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Listed shares	25,673	–	–	25,673
– Mutual funds	48,311	–	–	48,311
– Financial assets held by certain consolidated structured entities	181,491	–	50,000	231,491
Available-for-sale financial assets				
– Listed shares	8,776	33,632	–	42,408
– Mutual funds	262,629	–	–	262,629
– Equity investments	–	–	347,718	347,718
– Asset management products	–	–	155,646	155,646
– Trust Industry Protection Fund	–	–	57,800	57,800
Total	526,880	33,632	611,164	1,171,676

During the the year ended 31 December 2016 and 31 December 2017, the Group did not reclassify the financial instruments among different levels.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. Instruments included in Level 1 comprise primarily exchange traded equity investments and mutual funds classified as trading securities or available-for-sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(iii) Financial instruments in Level 3

	Financial assets at fair value		Total
	through profit or loss	Available-for-sale financial assets	
1 January 2017	50,000	561,164	611,164
Purchase	112,500	142,145	254,645
Sell	(30,000)	(113,403)	(143,403)
Transfer out	–	(212,341)	(212,341)
Gains and losses recognised in the investment income of profit or loss	–	(3,516)	(3,516)
Gains and losses recognised in other reserve	–	(20,092)	(20,092)
31 December 2017	132,500	353,957	486,457
Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the period (included in gains/(losses) disclosed above)	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

(iii) Financial instruments in Level 3 (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
1 January 2016	–	590,043	590,043
Purchase	50,000	164,456	214,456
Sell	–	(189,140)	(189,140)
Gains and losses recognised in the investment income of profit or loss	–	(1,389)	(1,389)
Gains and losses recognised in other reserve	–	(2,806)	(2,806)
31 December 2016	50,000	561,164	611,164
Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the year (included in gains/(losses) disclosed above)	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

(iii) Financial instruments in Level 3 (Continued)

Description	Fair value at 31 December 2017	Valuation technique(s)	Unobservable input	Range
Available-for-sale financial assets				
– Equity investments	113,161	Market comparable companies	Discount for lack of marketability (i) P/E multiple (ii)	45.57%-59.17% 18.48–25.75
Fair value at				
Description	31 December 2016	Valuation technique(s)	Unobservable input	Range
Available-for-sale financial assets				
– Equity investments	212,341	Market comparable companies	Discount for lack of marketability (i) P/B multiple (ii)	35%~68% 1.71~2.29

(i) Represents amounts used when the Group has determined that market participants take into account these discounts when pricing the investments.

(ii) Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments.

As at 31 December 2017 the remaining investments categorized in Level 3 with fair value of RMB373,296 thousand (31 December 2016: RMB398,823 thousand) were valued based on unobservable inputs such as net assets value of portfolio investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FINANCIAL STATEMENT OF THE COMPANY

(a) Statement of Financial Position of the Company

	31 December	
	2017	2016
ASSETS		
Non-current assets		
Property, plant and equipment	120,092	124,516
Intangible assets	4,617	4,206
Investments accounted for using the equity method	1,125,161	845,602
Investments in consolidated structured entities	4,167,021	3,634,905
Available-for-sale financial assets	631,779	866,201
Loans to customers	372,400	–
Investments classified as loans and receivables	223,511	43,443
Advance payments	18,993	2,788
Deferred income tax assets	74,708	18,485
Other non-current assets	276,731	205,063
Total non-current assets	7,015,013	5,745,209
Current assets		
Cash and bank balance	1,063,173	162,077
Financial assets at fair value through profit or loss	161,945	73,984
Financial assets purchased under agreements to resell	951,400	298,900
Loans to customers	147,000	–
Investments classified as loans and receivables	20,479	137,200
Trustee's remuneration receivable	359,074	232,404
Interest receivable	15,495	8,752
Other current assets	384,121	443,743
Total current assets	3,102,687	1,357,060
Total assets	10,117,700	7,102,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(All amounts expressed in thousands of RMB unless otherwise stated)

40 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

(a) Statement of Financial Position of the Company (Continued)

	31 December	
	2017	2016
Equity and liabilities		
Share capital	2,588,250	2,000,000
Capital reserve	2,215,637	616,289
Statutory surplus reserve	688,876	608,527
Statutory general reserve	718,772	638,423
Other reserves	27,903	51,223
Retained earnings	2,810,753	2,422,168
Total equity	9,050,191	6,336,630
Liabilities		
Non-current liabilities		
Salary and welfare payable	44,974	32,757
Total non-current liabilities	44,974	32,757
Current liabilities		
Short-term borrowings	328,000	500,000
Salary and welfare payable	37,046	38,182
Income tax payable	178,863	68,439
Dividend Payable	4,048	–
Other current liabilities	474,578	126,261
Total current liabilities	1,022,535	732,882
Total liabilities	1,067,509	765,639
Total equity and liabilities	10,117,700	7,102,269

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 22 March 2018 and signed on its behalf by:



Chairman and Executive Director



General manager and Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

(b) Statement of Changes in Equity of the Company

	Share capital (Note 27)	Capital reserve (Note 27)	Statutory surplus reserve (Note 28)	Statutory general reserve (Note 28)	Other reserves (Note 29)	Retained earnings	Total
Balance at 1 January 2017	2,000,000	616,289	608,527	638,423	51,223	2,422,169	6,336,631
Net profit for the year	-	-	-	-	-	803,495	803,495
Other comprehensive income for the year	-	-	-	-	(23,320)	-	(23,320)
Total comprehensive income	-	-	-	-	(23,320)	803,495	780,175
Appropriation to statutory surplus reserve	-	-	80,349	-	-	(80,349)	-
Appropriation to statutory general reserve	-	-	-	80,349	-	(80,349)	-
Dividends paid (Note 30)	-	-	-	-	-	(254,213)	(254,213)
Proceeds from issuance of H shares	588,250	1,599,348	-	-	-	-	2,187,598
Balance at 31 December 2017	2,588,250	2,215,637	688,876	718,772	27,903	2,810,753	9,050,191
Balance at 1 January 2016	2,000,000	616,289	520,149	590,460	145,011	2,070,324	5,942,233
Net profit for the year	-	-	-	-	-	883,783	883,783
Other comprehensive income for the year	-	-	-	-	(93,788)	-	(93,788)
Total comprehensive income	-	-	-	-	(93,788)	883,783	789,995
Appropriation to statutory surplus reserve	-	-	88,378	-	-	(88,378)	-
Appropriation to statutory general reserve	-	-	-	47,963	-	(47,963)	-
Dividends paid (Note 30)	-	-	-	-	-	(395,597)	(395,597)
Balance at 31 December 2016	2,000,000	616,289	608,527	638,423	51,223	2,422,169	6,336,631

DEFINITION

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

“Articles of Association”	Articles of Association of the Company (as amended from time to time)
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CBRC”	the China Banking Regulatory Commission (中國銀行監督管理委員會)(currently known as the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which was formed by the China Banking Regulatory Commission and the China Insurance Regulatory Commission in April 2018 upon merger)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to “China” and the “PRC” do not include, Hong Kong, Macau and Taiwan
“CNPC Assets Management”	CNPC Assets Management Co., Ltd. (中油資產管理有限公司)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“GDP”	gross domestic product
“Group”	the Company and the trust schemes over which it has control

DEFINITION

“H Share(s)”	overseas listed foreign share(s) in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “Hong Kong dollars” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards
“Kunlun Trust”	Kunlun Trust Co., Ltd. (昆侖信託有限責任公司)
“Latest Practicable Date”	20 April 2018
“Listing Date”	the date when the Company’s H Shares are listed on the main board of the Hong Kong Stock Exchange (i.e. 8 December 2017)
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lucion Group”	Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司)
“Macau”	the Macau Special Administrative Region of the PRC
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PPP”	Public-Private Partnership
“PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), which was promulgated by the Standing Committee of the National People’s Congress on 29 December 1993, came into effect on 1 July 1994 and revised as at 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively and the latest revision of which was implemented on 1 March 2014, as amended, supplemented or otherwise modified from time to time

DEFINITION

“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them
“Prospectus”	the prospectus issued on 28 November 2017 in connection with the Hong Kong Public Offering
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Office of CBRC”	the Shandong Office of CBRC (中國銀監會山東監管局)
“Shandong Trust”, “Company”, “the Company”, “we” or “us”	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), established in the PRC on 10 March 1987 and converted into a joint stock company with limited liability under the PRC Company Law on 30 July 2015
“Shareholder(s)”	holder(s) of our Shares
“SPV”	Special Purpose Vehicle
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	one (or all) of our supervisors
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this annual report in connection with our Company and our business. Some of these may not correspond to standard industry definitions or usage of these terms.

"asset management scheme"	an asset management contract entered into with its client(s) by a securities firm or subsidiary of securities investment fund management company in China, pursuant to which the client(s)' assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC and the securities firm provides asset management services to the client(s) through designated accounts
"AUM"	assets under management, which refers to the amount of the entrusted assets of our trust schemes
"benchmark interest rate"	the benchmark interest rate set by the PBOC on financial institutions' Renminbi deposits and loans
"commercial bank(s)"	include large commercial banks, joint-stock commercial banks, city commercial bank, rural commercial banks and foreign banks
"financial assets at FVTPL"	financial assets at fair value through profit or loss, which is a category of financial assets under IFRS
"gross amount"	gross amount of a financial asset is the amount before deduction of any provision for impairment losses
"HNWI"	high-net-worth individual
"inter-bank market"	a market in which financial institutions provide financings to one another
"IT"	information technology
"NAV"	net assets value, which means the value of an entity or trust scheme's assets minus the value of its liabilities
"Net Capital"	a measure provided by the Net Capital Measures, being our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by the CBRC while the risk deductions are determined by the CBRC
"Net Capital Measures"	the Administrative Measures on Net Capital of Trust Companies (信託公司淨資本管理辦法) promulgated by the CBRC in August 2010

GLOSSARY OF TECHNICAL TERMS

“R&D”	research and development
“risk-based capital”	a financial measure provided by the Net Capital Measures which is calculated by applying a risk factor to our proprietary assets or trust assets used in the relevant business
“SSE Index”	Shanghai Stock Exchange Composite Index, a capitalization-weighted stock market index of all stocks that are traded at the Shanghai Stock Exchange
“Trust Industry Protection Fund”	Trust Industry Protection Fund (信託業保障基金), a market-oriented risk mitigation system which was established to protect the legitimate interests of the trustees, effectively prevent the risk of the trust industry and facilitate the sound development of the trust industry



LUCION

山東省國際信託股份有限公司
Shandong International Trust Co., Ltd.