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

2018
INTERIM REPORT

CONTENT

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. The Company has developed proper corporate governance systems, grown 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, 2016 and 2017, the Company was awarded with the highest rating of Class A for three 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”, “and 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.

Where there is any inconsistency between the Chinese version and the English version of this interim report (except for the report on review of interim financial information and the unaudited condensed consolidated interim financial statements), the Chinese version shall prevail.

BASIC CORPORATE INFORMATION

Legal name (in Chinese)	山東省國際信託股份有限公司
Abbreviation in Chinese	山東國信
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) Lee Kwok Fai, Kenneth (李國輝)
Secretary to the Board	He Chuangye (賀創業)
Joint company secretaries	He Chuangye (賀創業) Lee Kwok Fai, Kenneth (李國輝)
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	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Website of Hong Kong Stock Exchange for publishing the interim report for H Shares	www.hkexnews.hk
Place for maintaining interim report	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

BASIC CORPORATE INFORMATION

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
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 DATA

	As at and for six months ended 30 June		As at and for the year ended 31 December (Audited)			
	2018	2017	2017	2016	2015	2014
Data at the end of the reporting period *(RMB in millions)*						
Total assets	**13,611**	–	12,902	8,648	8,171	7,635
Fee and commission income	**442**	615	1,130	828	1,052	1,285
Interest income	**352**	225	491	455	461	384
Total operating income	**951**	853	1,648	1,327	1,786	1,766
Change in net asset attributable to other holders of consolidated structured entities	**(27)**	(1)	2	1	–	2
Total operating expenses	**489**	271	696	389	615	575
Operating profit before income tax	**546**	658	1,119	1,077	1,346	1,286
Segment assets						
Proprietary business	**12,289**	–	11,655	7,557	6,711	6,332
Trust business	**1,228**	–	1,202	912	1,206	1,083
Unallocated assets[(1)]	**94**	–	45	179	254	220
Segment liabilities						
Proprietary business	**4,496**	–	3,715	2,220	1,529	1,800
Trust business	**39**	–	38	85	21	42
Unallocated liabilities[(1)]	**32**	–	2	2	623	396

Note:

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

ENVIRONMENT AND PROSPECTS

In the first half of 2018, the overall global economy continued to recover. However, given the impact arising from trade conflicts and changes in the financial environment, downside risks were gradually revealed. There has been difference in the pace of economic recovery in major developed economies, and the economies in emerging markets grew at a faster pace in general with continuing differences in internal performance. The PRC economy maintained a steady growth and its structural adjustments advanced progressively. There was a smooth conversion between new and existing kinetic energies and emerging industries experienced a prosperous development with steady improvement in quality and efficiency. In the first half of the year, GDP growth showed a year-on-year increase of 6.8%, and inflation level remained stable within a controllable range.

In the first half of 2018, the financial industry aimed to conduct a supply-side structural reform and had steadily implemented "deleveraging", thereby continuously improving the quality and efficiency for the real economy and incessantly enhancing the level of risk prevention and control. With the official launch of the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發〔2018〕106號)) (the "**New Regulation on Asset Management**"), the trust industry proactively complied with regulatory policies, actively pursued transformation and innovation by way of "deleveraging" and "de-channeling", further strengthened active management capability, accelerated the pace for returning-to-origin business, further boosting the capability in serving the real economy. By the end of March 2018, the industry reported a trust asset balance of RMB25.61 trillion, decreasing by RMB632.235 billion as compared to that at the beginning of the year. There was a further slowdown in the momentum of rapid growth and the operating performance was relatively stable with a low level of nonperforming asset ratio.

At present, the overall global economy continues to demonstrate recovery. However, factors such as trade conflicts, geopolitics and the normalisation of monetary policies in major economies will increase the uncertainties in the global economy and financial market. With the strong resilience of the PRC economy, the continuous favourable trend in economic fundamentals remains unchanged. Yet, investments from the private sector is still minimal and the momentum of organic growth is yet to be improved. Besides, there will still be significant structural conflicts, which will lead to challenges for the balance between stabilising growth, adjusting the structure and preventing risks. Meanwhile, along with the continuous accumulation in people's wealth, the succession of family wealth, and the development of multilayered capital markets, there will be further demand for asset management and wealth management, which will facilitate the revisit of fundamentals, accelerate business transformation and innovative development for the trust industry.

In the first half of 2018, faced with a stringent and complicated external environment, the Company fully demonstrated its competitive advantages by bringing to practise three major strategies, namely professionalization of products, integration of services and standardisation of operation, and focusing on the development of the real economy and the commencement of innovative businesses to strive for a better livelihood. It paid additional efforts in enhancing active management capability and capitalising on various trusts with an aim to push forward major transformation projects on new and existing kinetic energies and to pursue quality development of the economy. The Company continued to insist on the operating model of a combination of industry and finance, intensified the transformation and upgrade of business structure, kept improving the control and management of operation, optimised the establishment of a comprehensive mechanism on risk management and compliance, and reinforced the capability in wealth management, thereby continuously increasing its brand influence and market competitiveness.

Taking into consideration of a full analysis on the economic and financial trend, the regulatory environment and the competition in the asset management industry in local and overseas markets for the first half of the year, and based on the actual condition of its operation, the Company will carry out the following measures in the second half of the year: (1) strengthening the integration of industry and finance and providing financial support of better quality and efficiency in advantageous business fields so as to better serve the real economy and enhance the core competitiveness of the Company; (2) focusing on "information + technology" to establish a smart system for trusts and create core drivers for breakthroughs at high level; (3) optimising the layout of marketing network in key areas and core cities in order to further expand the geographical coverage of high-networth investors and replenish the shortage of capital source; (4) capturing opportunities arising from overseas operations and speeding up the establishment of subsidiaries in Hong Kong, achieving synergic development among the local and overseas businesses of the Company. The Company will continue to enhance its capability in comprehensive financial and wealth management and develop its integrated competitiveness as a listed company with a view to create and maximise new kinetic energies for the sustainable development of the Company.

BUSINESS OVERVIEW

As a trust company regulated by the CBIRC, the Company is permitted to conduct businesses across a number of markets, such as the real economy, capital markets and money markets. 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 proactively grow its business and achieve the "dual drivers" for the trust business and the proprietary business. In the first half of the year, 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) for 2017 based on a comprehensive assessment of the Company's capital strength, risk management capability, incremental value and social responsibility. The Company has obtained the Class A rating for three consecutive years. The Company was rated the highest AAA rating for five consecutive years in the comprehensive assessment of local financial institutions in Shandong.

In the first half of 2018, the Company has been fully leveraging its advantages to promote high quality development of the economy. Firstly, with the focus of serving the major transformation projects on new and existing kinetic energies, the Company has strengthened the integration of industry and finance, focused on advantageous business domains and continuously enhanced its active management capability. With our proprietary assets being approved by the Shandong Office of the CBRC to be engaged in equity investment business, the synergy effect between the trust business and the proprietary business was effectively utilised, and the quality and efficiency of serving the real economy were continuously improved. Secondly, the Company has fully initiated the establishment of the subsidiaries in Hong Kong, carried out numerous visits and investigations, proactively liaised with the relevant authorities, and determined the ways of establishment and functional positioning of the financial platform in Hong Kong. Thirdly, the Company has further improved its regional business layout by setting up regional business teams in major cities to expand the coverage of business network and broaden the sources of income. Fourthly, the Company has vigorously promoted the development of intellectual trust, and explored the construction of an ecological environment for high net-worth clients by setting up additional regional sales outlets, leading to a continuous expansion of coverage for high-net-worth clients and the promotion of targeted marketing.

In the first half of 2018, adhering to the development keynote of steady growth and steady improvement in quality, the Company responded actively to the adverse impacts arising in the external environment achieving a steady business growth with an operating income of RMB951.0 million, representing a year-on-year increase of 11.5%. Meanwhile, affected by the provision of impairment allowance and other factors, the net profit attributable to shareholders of the Company of RMB426.4 million, representing a year on-year decrease of 21.4%.

The Company's business segments are (i) trust business and (ii) proprietary business. Trust business is the Company's main 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.

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

	Six months ended 30 June			
	2018		2017	
	Amount	**%**	Amount	%
		(%)		*(%)*
	(RMB in thousands, apart from %)			
Trust business				
Operating income	**447,390**	**43.23**	615,878	66.34
Segment income	**447,390**	**43.23**	615,878	66.34
Proprietary business				
Operating income	**503,639**	**48.67**	237,292	25.56
Share of profit of investments accounted for using the equity method	**83,814**	**8.10**	75,215	8.10
Segment income	**587,453**	**56.77**	312,507	33.66
Total	**1,034,843**	**100.00**	928,385	100.00

In the first half of 2018, the income from the trust business and proprietary business of the Company accounted for 43.23% and 56.77% of the total revenue of the Company, respectively.

Trust Business

In the first half of 2018, in proactive response to the changes in the economic trend and regulatory policies in the PRC, the Company effectively promote the transformation and innovation of the Company's trust business. Firstly, the Company continued to reinforce its ability of active management and further adopted pure equity investment, "equity + debts", conversion of debts to equity, merger and acquisition funds and other means, and to actively stabilise "deleveraging". Secondly, the Company focused on advantageous businesses, explored further in new industry mechanisms, arranged for featured businesses that satisfied the requirements for better livelihoods, and enhanced the quality and efficiency of supply in consumer finance. Thirdly, the Company developed the synergic advantages between the fellow subsidiaries within the Lucion Group (魯信集團), shared customer resources, accelerated the execution of projects, and increased the horizontal and vertical cooperations with strategic customers. Fourthly, the Company established business teams in places such as Beijing, Chongqing, Nanjing and Zhengzhou, optimising the business layout of key regions. Fifthly, the Company sped up the establishment of marketing network in Jinan, Yantai, Hefei and other cities, expanded the coverage for high net-worth clients, and improved the capabilities in respect of wealth management services.

In the first half of 2018, backed by stringent supervision of and regulation on the financial industry through "de-channeling" and "deleveraging", the regulatory authorities have strengthened their management of and control over pipeline business of the financial industry, causing overall shortage of market capital, a year-on-year decrease in the expansion of social financing scale, and increased difficulty for financial institutions to get access to funds. Meanwhile, the introduction of new regulations on asset management has begun to impose tightening effect on the trust industry. In response to the regulatory policies, the Company took the initiative in downsizing its pipeline business, paid more attention to improving its active management capability, and accelerated the pace of the trust industry to revisit the fundamentals. In the first half of 2018, both the trust assets under management ("**AUM**") and income from trust business of the Company recorded a slight year-on-year decrease, while the proportions of scale of AUM of and income from actively managed trust to the total trust business maintained a steady growth. The trust AUM of all the Company's trusts decreased from RMB255,192 million as at 30 June 2017 to RMB225,037 million as at 30 June 2018, and the total number – 10 – of trusts were 872 and 977, respectively, as at the respective dates. As at 30 June 2018, the AUM of actively managed trust was RMB73,772 million, accounting for 32.8% of the total trust AUM (indicating a year-on-year growth of 1.5%). During the Reporting Period, revenue from the actively managed trust amounted to RMB310 million, accounting for 70.1% of the fee and commission income of the total income from trust business (indicating a year-on-year growth of 1.5%).

Classification of trusts

With the flexible trust arrangements under PRC laws, advantages of mixed operations under the Company's trust licence and strong active management capability, the Company has 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 focuses 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 participates 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 focuses 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, family 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.

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 30 June			
	2018		2017	
	Number	**AUM**	Number	AUM
	(AUM: RMB in millions)			
Financing trusts	**125**	**41,092**	142	46,913
Investment trusts	**406**	**32,680**	235	33,040
Administrative management trusts	**446**	**151,265**	495	175,239
Total	**977**	**225,037**	872	255,192

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):

	Six months ended 30 June			
	2018		2017	
	Revenue	**%**	Revenue	%
	(Revenue: RMB in millions)			
Financing trusts	**256**	**57.92**	258	41.95
Investment trusts	**54**	**12.22**	164	26.67
Administrative management trusts	**132**	**29.86**	193	31.38
Total	**442**	**100.00**	615	100.00

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 the first half of 2018, 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 30 June 2017 and 30 June 2018, the Company had managed 142 and 125 financing trusts, respectively, and the AUM decreased by 12.4% from RMB46,913 million as at 30 June 2017 to RMB41,092 million as at 30 June 2018. The revenue from financing trusts for the first half of 2018 decreased by 0.8% to RMB256 million as compared to the first half of 2017.

Investment Trusts

With investment trusts, the Company provides asset and wealth management services to institutional investors and high-net-worth individuals ("**HNWI**") 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 trusts and the business scope of the trust license enable the Company to offer financial products with unique value to institutional investors and HNWI.

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 ultra- high-net-worth individuals ("**UHNWI**"), 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 30 June 2018, the Company's family trust business has signed in aggregate a contract amount reaching RMB6 billion, of which the trust assets that have actually been delivered amounted to RMB4.693 billion, representing a year- on-year increase of 152.86%, maintaining its leading position in the industry. In 2018, the Company successfully implemented an order of delivering RMB0.5 billion super-large scale pure capital family trust product and an order of delivering RMB0.3 billion special-purpose family trust, representing that the Company has reached a new level in the breadth and depth of development of family trust and family office business. The Company's "Wealth Succession Family Trust" (財富傳承系列家族信託) was awarded with the "Best Family Trust Scheme 2018" (二零一八年度優秀家族信託計劃) by Securities Times (證券時報). This was the second time for the Company to win the award for its family trust business, representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry.

(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 customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 30 June 2018, the Company managed 7 discretionary wealth management trusts, with the AUM reaching approximately RMB1.09 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 2018, the Company's charitable trusts enhanced 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 30 June 2018, the Company managed 3 charitable trusts, with the AUM reaching approximately RMB35 million.

As at 30 June 2017 and 30 June 2018, the Company had 235 and 406 investment trusts, respectively, with AUM decreasing by 1.1% from RMB33,040 million as at 30 June 2017 to RMB32,680 million as at 30 June 2018. Revenue from investment trusts for the first half of 2018 amounted to RMB54 million, representing a decrease of 67.1% as compared to the first half of 2017.

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 the first half of 2018, in response to regulatory requirements, the Company actively carried out "deleveraging" in a stable manner and took the first move to downsize pipeline businesses. As such, both the AUM of the Company's administrative management trust and its income from such trusts decreased. As at 30 June 2017 and 30 June 2018, the Company had 495 and 446 administrative management trusts in existence, respectively, with trust AUM decreased by 13.7% from RMB175,239 million as at 30 June 2017 to RMB151,265 million as at 30 June 2018. In the first half of 2018, the income of the Company from administrative management trusts was RMB132 million, representing a decrease of 31.6% as compared to the first half of 2017.

Proprietary Business

In the first half of 2018, in order to effectively utilise its own funds and to improve the operational quality and efficiency of its own funds, the Company insisted on the strategy of combining long term, medium- term and short term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the "investment and loan linkage mechanism", and provided great support for the transformation and innovation of the trust business. Secondly, the Company captured the opportunities arising from the qualification approved by the Shandong Office of the CBRC to conduct equity investment business with its proprietary assets, intensified the investing strength in the PE business. Thirdly, the Company actively pushed forward the equity transfer for Taixin Fund Management Co. Ltd.* (泰信基金管理有限公司) and focused on the optimisation of the layout of the financial equity investment business. Fourthly, with liquidity being assured, short term operations such as government bonds purchased under agreements to resell and the purchase of wealth management products were actively carried out in order to raise capital efficiency. Through its incessant efforts, the Company recorded an income of RMB587.5 million for its proprietary business for the first half of the year, representing a year-on-year increase of 88.0%.

Allocation of Proprietary Assets

Pursuant to the Administrative Measures on Trust Companies(《信託公司管理辦法》) issued by the 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 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.

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 30 June in 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Investments in monetary assets	**1,211,322**	2,014,511
Deposits at banks	**1,200,522**	1,063,111
Government bonds purchased under agreements to resell	**10,800**	951,400
Securities Investments	**6,459, 198**	5,022,948
Investment in equity products	**573, 342**	414,208
Listed shares classified as:		
— financial assets at FVTPL	**3,980**	18,199
— available-for-sale financial assets	**N/A**	5,431
Subtotal	**3,980**	23,630
Mutual funds classified as:		
— financial assets at FVTPL	**520,682**	81,246
— available-for-sale financial assets	**N/A**	276,832
Subtotal	**520,682**	358,078
Equity investment in an unlisted entity classified as financial assets at FVTPL	**48,680**	32,500
Investment in wealth management products		
Investments in our consolidated trust schemes	**5,494,272**	4,167,021
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortized cost	**N/A**	243,990
Financial investments in our unconsolidated trust schemes and classified as measured at amortised cost	**133,802**	N/A
Investment in unconsolidated trust schemes classified as financial assets at FVTPL	**106,185**	30,000
Asset management products	**151,597**	167,729
Long-Term Equity Investments	**1,235,163**	1,238,322
Investment accounted for using the equity method	**1,120,928**	1,125,161
Investments classified as financial assets at FVPL	**114,235**	–
Investments classified as available-for-sale financial assets	**N/A**	113,161
Proprietary Loans	**446,886**	519,400
Trust Industry Protection Fund	**108,391**	68,626
Total	**9,460,960**	8,863,807

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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Investment in monetary assets		
– Deposit at banks	**1,200,522**	1,063,111
– Government bonds purchased under agreements to resell	**10,800**	951,400
Total	**1,211,322**	2,014,511

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Interest income generated from:		
– Deposit at banks	**3,612**	945
– Government bonds purchased under agreements to resell	**10,281**	11,839
Total	**13,893**	12,784

The average investment return of the Company's monetary assets (calculated as the total of investment income (in terms of the interest income received), annualised as a percentage of average investment balance in such monetary assets, where appropriate)) were 4.9% and 1.7% for the six months ended 30 June 2017 and 30 June 2018, respectively. The decrease in average investment return was attributable to a significant increase in the proportion of bank deposits with medium-low returns (mainly raised proceeds) as compared with the same period of last year in the monetary asset investment balance in the first half of 2018, and a significant decrease in the proportion of investment in government bonds purchased under agreements to resell with relatively high returns as compared with the same period of last year, resulting in the significant decrease in the average investment return of monetary assets for the six months ended 30 June 2018.

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:

	As at 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in millions, except risk category)	
Risk category of underlying investments		
– Equity products	**High**	High
– Trust schemes	**Medium**	Medium
– Asset management products	**Medium**	Medium
Average investment balance[1]		
– Equity products	**493.8**	396.6
– Trust schemes	**5,087.6**	4,128.3
– Asset management products	**159.7**	161.7

Note:

(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.

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 24.5% from RMB396.6 million in 2017 to RMB493.8 million in the first half of 2018; the average balance of investments in trust schemes increased by 23.2% from RMB4,128.3 million in 2017 to RMB5,087.6 million in the first half of 2018; and the average balance of the Company's investments in asset management products decreased by 1.2% from RMB161.7 million in 2017 to RMB159.7 million in the first half of 2018.

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 30 June 2018, 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 30 June 2018	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	10.71%	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	Financial assets at FVTPL

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 financial assets at FVPL under the requirements of IFRS 9 "Financial Instruments" ("**IFRS 9**") since 1 January 2018. The balance of the Company's long-term equity investments (including those accounted for as associates using the equity method, financial assets at FVPL, 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Long-term equity investments, accounted for:		
– As associate using the equity method	**1,120,928**	1,125,161
– Investment categorized as financial assets at FVTPL	**114,235**	–
– As available-for-sale financial assets	**N/A**	113,161
Total	**1,235,163**	1,238,322

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Dividend income generated from:		
– Associates accounted for by the equity method	**29,372**	–
– Financial assets at FVTPL	**5,688**	–
– Available-for-sale financial assets	**N/A**	–
Total	**35,060**	–

The average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 0% and 5.7% for six months ended 30 June 2017 and 30 June 2018, respectively. The increase in average return on long-term equity investments in the first half of 2018 as compared to that of the first half of 2017 was primarily due to the increase in dividend income from the associates of the Company in 2018.

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. As at 31 December 2017 and 30 June 2018, the outstanding balance of the Company's proprietary loans were RMB519.4 million and RMB446.9 million, respectively.

Trust Industry Protection Fund

According to the Measures for the Administration of 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 funds when conducting business. The Company's interests in Trust Industry Protection Fund increased by 57.9% from RMB68.6 million as at 31 December 2017 to RMB108.4 million as at 30 June 2018.

FINANCIAL OVERVIEW

Unaudited Condensed Consolidated Comprehensive Income Statements Analysis

In the first half of 2018, the net profit attributable to shareholders of the Company amounted to RMB426.4 million, which decreased by RMB116.1 million as compared to the corresponding period of last year, representing a decrease of 21.4%.

Results of Operations

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Fee and commission income	**442,050**	614,701
Interest income	**351,740**	225,130
Net changes in fair value of financial assets at FVPL	**9,051**	10,341
Investment (losses)/income	**(18,024)**	1,488
Net gains on disposal of associates held by consolidated structured entities	**160,851**	–
Other operating income	**5,361**	1,510
Total operating income	**951,029**	853,170

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Interest expenses	**(43,778)**	(52,803)
Staff costs (including Directors and Supervisors' emoluments)	**(77,602)**	(81,902)
Operating lease payments	**(4,964)**	(4,571)
Depreciation and amortisation	**(4,115)**	(4,525)
Change in net assets attributable to other beneficiaries of consolidated structured entities	**(26,751)**	(1,401)
Tax and surcharges	**(5,117)**	(5,513)
Auditor's remuneration	**(896)**	(1,175)
Other operating expenses	**(33,209)**	(22,891)
Loan impairment charges and other credit risk provision	**(277,272)**	(76,285)
Impairment losses on other assets	**(15,439)**	(19,458)
Total operating expenses	**(489,143)**	(270,524)
Share of profit of investments accounted for using the equity method	**83,814**	75,215
Operating profit before income tax	**545,700**	657,861
Income tax expense	**(119,309)**	(115,331)
Net profit attributable to shareholders of the Company	**426,391**	542,530

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Fee and commission income:		
Trustee's remuneration	**439,350**	610,918
Others	**2,700**	3,783
Total	**442,050**	614,701

The Group's fee and commission income in the first half of 2018 were RMB442.1 million, representing a decrease of 28.1% as compared to the RMB614.7 million in the first half of 2017. Such decrease was primarily due to a decrease in the Group's trustee's remuneration, which was caused by a decrease in trust AUM and received floating trustee's remuneration of the Company.

Interest Income

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Interest income from:		
Cash and bank deposits balance	**3,612**	945
Loans to customers	**326,248**	204,320
Investments classified as financial investment measured at amortised cost	**7,992**	N/A
Investment classified as loans and receivables	**N/A**	7,204
Financial assets purchased under agreements to resell	**10,281**	11,839
Contribution to Trust Industry Protection Fund on behalf of trust schemes	**3,607**	822
Total	**351,740**	225,130
Including: Interest income from impaired financial assets	**11,522**	3,349

The Group's interest income in the first half of 2018 was RMB351.7 million, representing an increase of 56.2% as compared to the RMB225.1 million in the first half of 2017. Such increase was primarily due to the following factors:

(1) The Group's interest income from loans to customers increased by 59.7% from RMB204.3 million in the first half of 2017 to RMB326.2 million in the first half of 2018, primarily due to an increase in the average balance of loans granted by the Group's consolidated trust schemes from the first half of 2017 to the first half of 2018 as a result of the increase in the aggregate size of such consolidated trust schemes.

(2) The Group's interest income from Trust Industry Protection Fund increased by 338.8% from RMB0.8 million in the first half of 2017 to RMB3.6 million in the first half of 2018, primarily due to the increase in Trust Industry Protection Fund contributed by the Company on behalf of the financing trust schemes, bringing about the increase in the corresponding interest income.

(3) The Group's interest income from cash and bank deposits balance increased by 282.2% from RMB0.9 million in the first half of 2017 to RMB3.6 million in the first half of 2018, primarily due to the increase in interest income from the proceeds raised from the global offering of the Company in December 2017 which was partially deposited with overseas banks.

Net Changes in Fair Value on Financial Assets at FVTPL

Net changes in fair value of financial assets at FVPL decreased from a gain of RMB10.3 million in the first half of 2017 to RMB9.1 million in the first half of 2018.

Investment (Loss)/Income

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Dividends income from:		
Financial assets at FVPL	**5,688**	–
Net realised gains/(losses) from:		
Financial assets at FVPL	**(23,712)**	79
Available-for-sale financial assets	**N/A**	1,409
Total	**(18,024)**	1,488

The Group's investment losses in the first half of 2018 were RMB18.0 million, decreased by RMB19.5 million as compared to the gain of RMB1.5 million in the first half of 2017, due to the losses on disposal of shares and funds by the Company in the first half of 2018.

Net gains on disposal of associates held by consolidated structured entities

Consolidated structured entities of the Group include the trust schemes developed and managed by the Group. In the first half of 2018, the equity interests held by the specific consolidated structured entities which were accounted for by the Group using equity method were disposed of, and the Group realised a net gain of RMB160.9 million.

Total Operating Expenses

Interest Expenses

The Group's interest expenses represented (i) interest paid to China Trust Industry Protection Fund Co., Ltd.* (中國信託業保障基金有限責任公司) and (ii) 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 the first half of 2018 was RMB43.8 million, decreasing by 17.1% as compared to RMB52.8 million in the first half of 2017, primarily due to the decrease in the 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 decrease in the 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 impairment on the Group's consolidated trust schemes from the first half of 2017 to the first half of 2018.

Staff Costs

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Salaries and bonuses	**62,301**	71,845
Pension costs (defined contribution plans)	**2,847**	2,396
Housing funds	**1,961**	1,989
Labour union fee and staff education expenses	**180**	2,394
Other social security and benefit costs	**10,313**	3,278
Total	**77,602**	81,902

The Company's staff costs in the first half of 2018 was RMB77.6 million, decreased by 5.3% as compared to RMB81.9 million in the first half of 2017 primarily due to the decreases in salaries and bonuses. The decrease in salaries and bonuses was caused by the decrease in the Company's fee and commission income.

Tax and Surcharges

The Company's tax and surcharges decreased by 7.2% from RMB5.5 million in the first half 2017 to RMB5.1 million in the first half 2018.

Other Operating Expenses

The Group's other operating expenses increased by 45.1% from RMB22.9 million in the first half of 2017 to RMB33.2 million in the first half of 2018, primarily due to the increase in advertising expense and internet communication expense in the first half of 2018.

Impairment Losses on Assets

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Loan impairment charges and other credit risk provision		
– Loans to customers	**254,392**	72,318
– Financial investments measured at amortised cost	**4,791**	N/A
– Investment classified as loans and receivables	**N/A**	3,967
– Trustee's remuneration receivable	**11,624**	–
– Interest receivable	**5,198**	–
– Others	**1,267**	–
Sub-total	**277,272**	76,285
Impairment loss on other assets		
– Available-for-sale financial assets	**N/A**	19,458
– Investment in art work	**15,439**	–
Sub-total	**15,439**	19,458
Total	**292,711**	95,743

The Group's loan impairment charges and other credit risk provision increased by 263.5% from RMB76.3 million in the first half of 2017 to RMB277.3 million in the first half of 2018, which was primarily due to the significant increase of an impairment allowance being made for the loans granted by the consolidated trust scheme. Meanwhile, there was an increase in the impairment provision for credit assets, such as trustee's remuneration receivable and interest receivable, under IFRS 9.

Impairment loss on other assets of the Group for the first half of 2018 amounted to RMB15.4 million, which was primarily due to the occurrence of the impairment loss on art work invested by the Group.

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 11.4% from RMB75.2 million in the first half of 2017 to RMB83.8 million in the first half of 2018, primarily due to the increase in investments gain income from Shandong HOWO Automotive Finance Co., Ltd.* (山東豪沃汽車金融有限公司), Shandong Provincial Financial Asset Management Co., Ltd.* (山東省金融資產管理股份有限公司) and Shenzhen Derun Yixuan Property Co., Ltd.* (深圳市德潤逸軒置業有限公司), which was partially offset by the investment losses from Taixin Fund Management Co. Ltd.* (泰信基金管理有限公司) and Zouping Pufa Village Bank Co., Ltd. (鄒平浦發村鎮銀行股份有限公司).

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Operating profit before income tax	**545,700**	657,861
Operating margin[1]	**57.4%**	77.11%

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 decreased by 17.0% from RMB657.9 million in the first half of 2017 to RMB545.7 million in the first half of 2018, and the Group's operating profit margin decreased from 77.1% in the first half of 2017 to 57.4% in the first half of 2018.

Income Tax Expense

The Company's income tax expense increased by 3.4% from RMB115.3 million in the first half of 2017 to RMB119.3 million in the first half of 2018 primarily due to a decrease in tax effect arising from non-taxable income in the first half of 2018.

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Net profit attributable to shareholders of the Company	**426,391**	542,530
Net profit margin[1]	**44.8%**	63.6%

Note:

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

As a result of the foregoing, the net profit attributable to the shareholders of the Company decreased by 21.4% from RMB542.5 million in the first half of 2017 to RMB426.4 million in the first half of 2018. The Company's net profit margin decreased from 63.6% in the first half of 2017 to 44.8% in the first half of 2018.

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Trust business:		
Operating income	**447,390**	615,878
Segment income	**447,390**	615,878
Proprietary business:		
Operating income	**503,639**	237,292
Share of profit of investments accounted for using the equity method	**83,814**	75,215
Segment income	**587,453**	312,507

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

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Trust business	**(118,525)**	(116,986)
Proprietary business	**(370,618)**	(153,538)
Total operating expenses	**(489,143)**	(270,524)

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Trust business	**328,865**	498,892
Proprietary business	**216,835**	158,969
Total operating profit before income tax	**545,700**	657,861

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:

	Six months ended 30 June	
	2018	2017
	(RMB in thousands)	
Trust business	**73.5%**	81.0%
Proprietary business	**36.9%**	50.9%

Trust Business

The segment income from the Group's trust business consists of its fee and commission income, interest income from cash and bank deposits balance, interest income from contribution to 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 and other operating expenses that are related to the Group's trust business.

The segment operating profit before income tax for the Group's trust business decreased by 34.1% from RMB498.9 million in the first half of 2017 to RMB328.9 million in the first half of 2018, primarily due to a 27.4% decrease in segment income from the trust business from RMB615.9 million in the first half of 2017 to RMB447.4 million in the first half of 2018.

The decrease in the segment income from the trust business was mainly due to a decrease in the Group's fee and commission income from RMB614.7 million in the first half of 2017 to RMB442.1 million in the first half of 2018.

As a result of the foregoing, the segment margin of the trust business decreased from 81.0% in the first half of 2017 to 73.5% in the first half of 2018.

Proprietary Business

The segment income from the Group's proprietary business consists of the interest income from loans to customers, interest income from investment classified as financial investment measured at amortised cost and financial assets purchased under the agreements to resell, net changes in fair value of the financial assets at FVPL, investment income and share of profit of investments accounted for using the equity method. The segment operating expenses of the Group's proprietary business consists of the 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 assets.

The segment operating profit before income tax for the Group's proprietary business increased by 36.4 % from RMB159.0 million in the first half of 2017 to RMB216.8 million in the first half of 2018, primarily due to a 88.0% increase in the segment income from the proprietary business from RMB312.5 million in the first half of 2017 to RMB587.5 million in the first half of 2018, which was partially offset by a 141.4% increase in the segment operating expenses from the proprietary business from RMB153.5 million in the first half of 2017 to RMB370.6 million in the first half of 2018.

(1) The increase in segment operating expenses from proprietary business was mainly due to (i) an increase in the change in net assets attributable to other beneficiaries of consolidated structured entities from RMB1.4 million in the first half of 2017 to RMB26.8 million in the first half of 2018; and (ii) an increase in loan impairment charges and other credit risk provision from RMB76.3 million in the first half of 2017 to RMB277.3 million in the first half of 2018.

(2) The increase in segment income from proprietary business was mainly due to (i) an increase in interest income from RMB224.9 million in the first half of 2017 to RMB351.4 million in the first half of 2018; (ii) net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in the first half of 2018, as compared to RMB0 in the first half of 2017.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 50.9% in the first half of 2017 to 36.9% in the first half of 2018.

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. The 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 2017 and 30 June 2018, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB12,902.0 million and RMB13,610.7 million, respectively, of which the total assets of the Company amounted to RMB10,117.7 million and RMB10,822.2 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments accounted for using the equity method, (iii) financial investments measured at amortised cost, (iv) financial assets at FVPL, (v) cash and bank deposits balances, (vi) trustee's remuneration receivable and (vii) financial assets purchased under agreement to resell. As at 30 June 2018, the above-mentioned major assets accounted for 55.6%, 13.3%, 1.0%, 9.8%, 10.2%, 1.4% and 0.1%, respectively, of the total assets of the Group.

Loans to Customers

The following table sets forth the gross amount of the Group's loans to customers, provision for expected credit losses, 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Loans to customers, at amortised cost		
Less: allowance for impairment losses	**8,252,190**	6,581,191
– Expected credit losses provision	**(678,130)**	N/A
– Collectively assessed	**N/A**	(114,726)
– Individually assessed	**N/A**	(284,033)
Loans to customers, net	**7,574,060**	6,182,432
Analysed into:		
– Non-current assets	**2,486,748**	3,196,960
– Current assets	**5,087,312**	2,985,472

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 schemes were consolidated by the Company in accordance with IFRS 10 in the first half of 2018 than those in 2017.

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 made proprietary investment and consolidated into the Company's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 100.0% from RMB844.9 million as at 31 December 2017 to RMB1,689.4 million as at 30 June 2018. 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 2017 and 30 June 2018 were RMB1,334.4 million and RMB2,287.3 million, respectively. The Company performed individual assessments to determine the provision for impairment losses on those loans and made allowance for impairment of RMB284.0 million and RMB506.6 million for these impaired loans as at 31 December 2017 and 30 June 2018, respectively, representing 33.6% and 30.0% 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 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 12.8% and 20.5% of the Group's gross loans to customers as at 31 December 2017 and 30 June 2018, 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. As at 30 June 2018, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 5.6% and 5.9% 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, provision for expected losses on credit assets, 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Loans to customers, at amortised cost		
Less: allowance for impairment losses	**460,000**	530,000
– Expected provision of credit losses	**13,114**	–
– Collectively assessed	**N/A**	10,600
– Individually assessed	**N/A**	–
Loans to customers, net	**446,886**	519,400
Analysed into:		
– Non-current assets	**368,875**	372,400
– Current assets	**78,011**	147,000

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.

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 30 June 2018	As at 30 June 2018	As at 31 December 2017 (Audited)
		(RMB in thousands)	
Associates of the Company:			
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限公司)	16.68%	**506,983**	473,176
Dezhou Bank Co., Ltd.* (德州銀行股份有限公司)	3.42%	**120,265**	139,152
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司)	45.00%	**93,601**	105,642
Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	10.71%	**170,923**	169,887
Zouping SPD Rural Bank Co., Ltd. (鄒平浦發村鎮銀行股份有限公司)	10.00%	**18,981**	26,157
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	9.85%	**210,175**	211,147
Gross amount		**1,120,928**	1,125,161
Impairment allowance		**–**	–
Associates of the Company, net		**1,120,928**	1,125,161
Associates of the Company's certain consolidated structured entities:			
Shandong Provincial Financial Asset Management Co., Ltd.	4.95%	**593,066**	618,730
Tailong Health Industry Investment Company Limited* (太龍健康產業投資有限公司)	26.05%	**52,100**	80,000
Others		**42,500**	78,143
Gross amount		**687,666**	766,873
Less: Impairment allowance		**–**	–
Associates of the Company's certain consolidated structured entities, net		**687,666**	776,873
Total		**1,808,594**	1,902,034

Financial Assets at FVPL

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

	As at 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in thousands)	
Listed shares	**3,980**	18,199
Mutual funds	**520,682**	81,246
Asset management products	**151,597**	–
Equity investments held by consolidated structured entities	**278,905**	323,280
Investment in trust schemes which are invested in equity	**106,185**	30,000
Trust Industry Protection Fund	**108,391**	–
Equity investment in an unlisted entity	**162,915**	32,500
Total	**1,332,655**	485,225

The changes in the major composition of the Group's financial assets at FVPL 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 FVPL increased by 174.6% from RMB485.2 million as at 31 December 2017 to RMB1,332.7 million as at 30 June 2018, primarily due to (i) under IFRS 9, the financial assets originally calculated as available-for-sale financial assets were re-classified as financial assets at FVPL; (ii) the increase in the Group's investment in mutual funds; (iii) the increase in the Group's trust schemes investing in equity interests; and (iv) increase in the subscription of Trust Industry Protection Fund.

Cash and Bank Deposits Balance

As at 31 December 2017 and 30 June 2018, the Group's cash and bank deposits balance amounted to RMB1,172.8 million and RMB1,383.1 million, respectively, of which RMB1,063.2 million and RMB1,200.5 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank deposits balance of the Group's consolidated trust schemes.

Trustee's Remuneration Receivable

The Group's trustee's remuneration receivable represents the 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 decreased by 39.3% from RMB315.0 million as at 31 December 2017 to RMB191.1 million as at 30 June 2018. 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 is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 31 July 2018, 25.2% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under the Agreements to Resell

The Company's financial assets purchased under agreements to resell consist of the government bond purchased under agreements to resell as part of its proprietary business.

The Company's government bond purchased under agreements to resell decreased by 98.9% from RMB951.4 million as at 31 December 2017 to RMB10.8 million as at 30 June 2018. These changes were due to the flexible adjustment of the business scale of the Company's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Company's government bond purchased under agreements to resell as at 31 December 2017 and 30 June 2018, respectively.

Prepayments

The Company's prepayments decreased from RMB19.0 million as at 31 December 2017 to RMB2.8 million as at 30 June 2018, primarily related to the prepayments made by the Company for the purchase of the wealth management centre office and other payments being transferred into accounting of projects under construction in the first half of 2018.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Measures for the Administration of Trust Industry Protection Fund issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pays to Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, 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 Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any 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 recorded the amounts 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 RMB637.9 million and RMB723.4 million as at 31 December 2017 and 30 June 2018, respectively, among which RMB276.7 million and RMB275.2 million were classified as non-current assets, and RMB361.2 million and RMB448.2 million were 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 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 Trust Industry Protection Fund upon termination of the Company's financing trusts.

Liabilities

As at 31 December 2017 and 30 June 2018, the Group's total liabilities amounted to RMB3,754.5 million and RMB4,567.8 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the China Banking and Insurance Regulatory Commission. 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, income tax payables, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 30 June 2018, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, income tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 57.7%, 25.8%, 2.1%, 2.5% and 11.8% of the Group's total liabilities, respectively.

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

The net assets attributable to other beneficiaries of the consolidated structured entities represent third-party beneficiaries' share of net assets of the Company's consolidated trust schemes. Under the 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 use, and are prohibited from using, the assets of a consolidated trust scheme to pay for any beneficiary of another consolidated trust scheme. As such, while the 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) decreased by 1.8% from RMB2,687.0 million as at 31 December 2017 to RMB2,637.8 million as at 30 June 2018. Changes in such amount mainly reflected changes in the 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.

Income Tax Payable

The Company's income tax payable decreased by 45.2% from RMB178.9 million as at 31 December 2017 to RMB98.0 million as at 30 June 2018.

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, value-added tax and surcharges for trusts, deferred trustee's remuneration and other tax payable.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB133.6 million as at 31 December 2017 to RMB133.8 million as at 30 June 2018.

The Company's deferred trustee's remuneration increased from RMB37.6 million as at 31 December 2017 to RMB39.4 million as at 30 June 2018, while other tax payable decreased by 65.8% from RMB44.5 million as at 31 December 2017 to RMB15.2 million as at 30 June 2018, which was mainly due to the individual income tax withheld and paid for the annual bonus granted by the Company to its employees in December 2017.

The Notice in relation to Value- Added Tax Policies on Asset Management Products (Cai Shui [2017] No. 56)《(關於資管產品增值稅有關問題的通知》(財稅[2017]56 號)) was promulgated by the Ministry of Finance of the PRC ("**MOF**") and the SAT on 30 June 2017 (the "**Notice**"). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As of 30 June 2018, the outstanding VAT for trusts and the related surcharges amounted to RMB92.3 million.

Off-balance Sheet Arrangements

As at 30 June 2018, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

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 2017 and 30 June 2018, the Company had consolidated 45 and 50 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB6,957.6 million and RMB8,403.9 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	As at 30 June 2018	As at 31 December 2017
Beginning:	**45**	36
Newly consolidated trust schemes	**13**	17
Deconsolidated trust schemes	**8**	8
Ending:	**50**	45

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 FVPL, 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in millions)	
Total assets of the Company	**10,822**	10,118
Total assets of consolidated trust schemes	**8,404**	6,958
Consolidation adjustment	**(5,615)**	(4,174)
Total assets of the Group	**13,611**	12,902

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 FVPL, 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in millions)	
Total liabilities of the Company	**1,930**	1,068
Total liabilities of consolidated trust schemes	**8,404**	6,958
Consolidation adjustment	**(5,766)**	(4,271)
Total liabilities of the Group	**4,568**	3,755

The 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 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 30 June 2018	As at 31 December 2017 (Audited)
	(RMB in millions)	
Total equity of the Company	**8,892**	9,050
Consolidation adjustment	**151**	97
Total equity of the Group	**9,043**	9,147

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 represented interest income of the Group's consolidated financing trust schemes that were expected to be distributed to third-party beneficiaries of such trust schemes. 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:

	Six months ended 30 June	
	2018	2017
	(RMB in millions)	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	**352**	472
Impact of consolidation of trust schemes	**74**	71
Net profit attributable to the Group's shareholders after consolidation of trust schemes	**426**	543

In determining whether a trust scheme should be consolidated involves a 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. The 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

(3) Whether the Company controls the trust scheme that the Company not only has the power over the trust scheme and exposure or rights to variable returns from its involvement, but also the ability to use its power to affect the returns from the trust scheme. As the Company is responsible for the planning, pricing, setting of 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 that 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 the 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.

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.

After experiencing 40 years of rapid growth of China's economy, businesses in China nowadays have shifted to a "quality development" stage characterised by economic structure optimisation, transformation and upgrading. The PRC government is promoting a supply-side reform to address overcapacity, deleverage the financial industry, and control the irrational growth of the real estate sector.

The structural transformations, macro-economic policies and other changes in the financial market of the Chinese economy present both challenges and opportunities for the Company's trust business. For example, monitoring of the real estate industry in China and restrictions on local governments to incur debts may negatively affect the Company's trust business. Under the background of economic slowdown, structural adjustments and financial "de-leveraging", the macro-economic circumstances have formed certain pressure and constraints on the capital-end and asset-end of the trust industry. 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 innovative business may not be able to offset decline 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.

Regulatory Environment

The Company's results of operations, financial condition and prospects are affected by regulatory developments in the PRC. CBIRC, the main regulatory authority for the PRC Trust Industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these changing regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. "Deleveraging" and "risk prevention" become the keynote of regulation in the PRC financial industry. The regulatory authorities strengthen their management of and control over the pipeline business of trust companies, with an aim to procuring trust companies in enhancing active management capability to further raise the standard of risk management. In April 2018, the People's Bank of China, the CBIRC, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to unify the regulatory standards of asset management business by product types, requiring, among other things, financial institutions including trust companies to carry out "de-channeling" and "reduce nested systems" in conducting the asset management business. Such policies may impose certain tightening effects on the operation of trust companies in the short term, while in the long term, they are conducive to trust companies in enhancing the active management capability and returning to the fundamentals of trust business. The Company believes the regulatory authorities are committed to reforming the PRC Trust Industry with a view of enhancing PRC trust companies' active management capability, enhancing the level of net capital, increasing the level of risk management as regulatory objective, committed to standardising and developing the PRC Trust Industry. For example, as the regulatory authorities allowed trust companies to establish dedicated subsidiaries to engage in certain businesses outside the traditional trust business, the Company will, in accordance with the requirements of regulatory policies, establish specific subsidiaries to engage in real estate investment, private equity investment, family trust and wealth management businesses to elevate the Company's professional asset management and financial service capabilities. However, the regulatory authorities may also restrict the development of certain businesses of trust companies from time to time, which may have an adverse effect on the Company's business.

In addition, the regulatory environment of other financial industries in China may also indirectly impact the Company's trust business. For example, in December 2017, the CBRC promulgated the Notice for the Regulation of Businesses between Banks and Trust Companies《(關於規範銀信類業務的通知》) which further enhanced the management of collaborative businesses between the commercial banks and trust companies. Under the regulatory framework of "de-channeling", the administrative management business in the trust industry may continue to slow down. 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.

Business Lines and Product Portfolio

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. In the course of internal development in the trust industry with the momentum characterised by differentiation, most of the trust companies are working on expansion and innovation in a proactive and effective manner. 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 its products and services against the Company's competitors and leverage on its own advantages, shareholders' background, strategic partnership as well as research and development and innovative capabilities, fostering business expansion and financial innovation to reinforce 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.

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 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.

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 Chinese and global political and economic conditions, international trade 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. Since the beginning of this year, there has been a sustained and significant depreciation of Renminbi against the U.S. dollars. Affected by trade conflicts, currency policies, economic trends and other factors, the probability of future exchange rate fluctuations of Renminbi against the U.S. dollars may increase, which will affect the risk exposure of the Company's foreign currency assets.

RISK MANAGEMENT

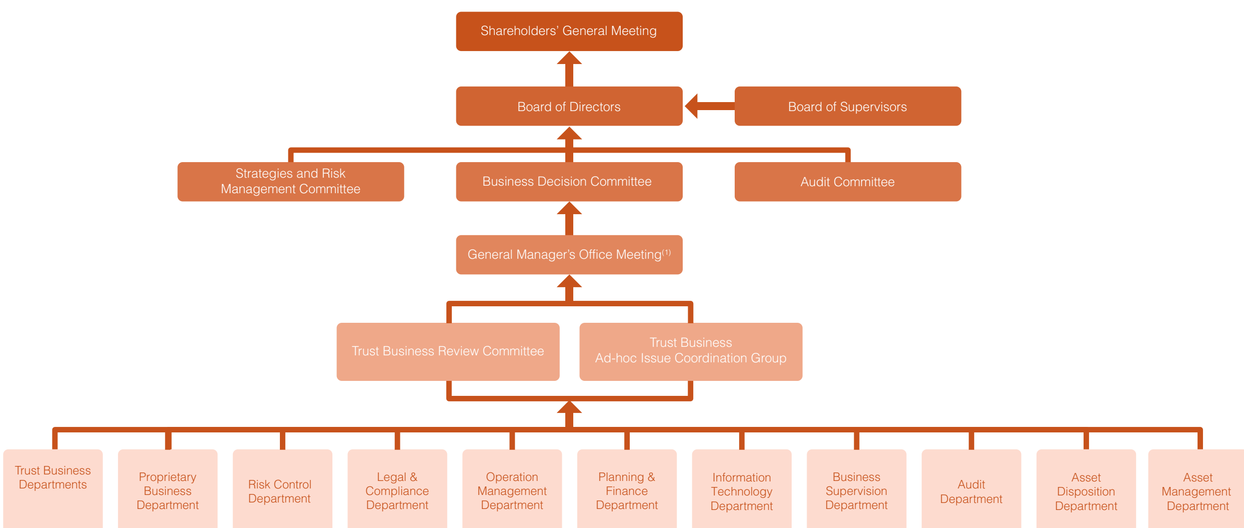
Overview

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, Asset Disposition Department, and Asset Management Department. Finally, all Trust Business Departments of the Company (including Regional Business Units) are required to assume primary risk management responsibilities.

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, vice 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 China Banking and Insurance Regulatory Commission, 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 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 when they 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 the Legal & Compliance Department shall be responsible for monitoring 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.

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 shall be responsible for conducting internal auditing and evaluating the effectiveness of the operational risk management.

Reputational Risk Management

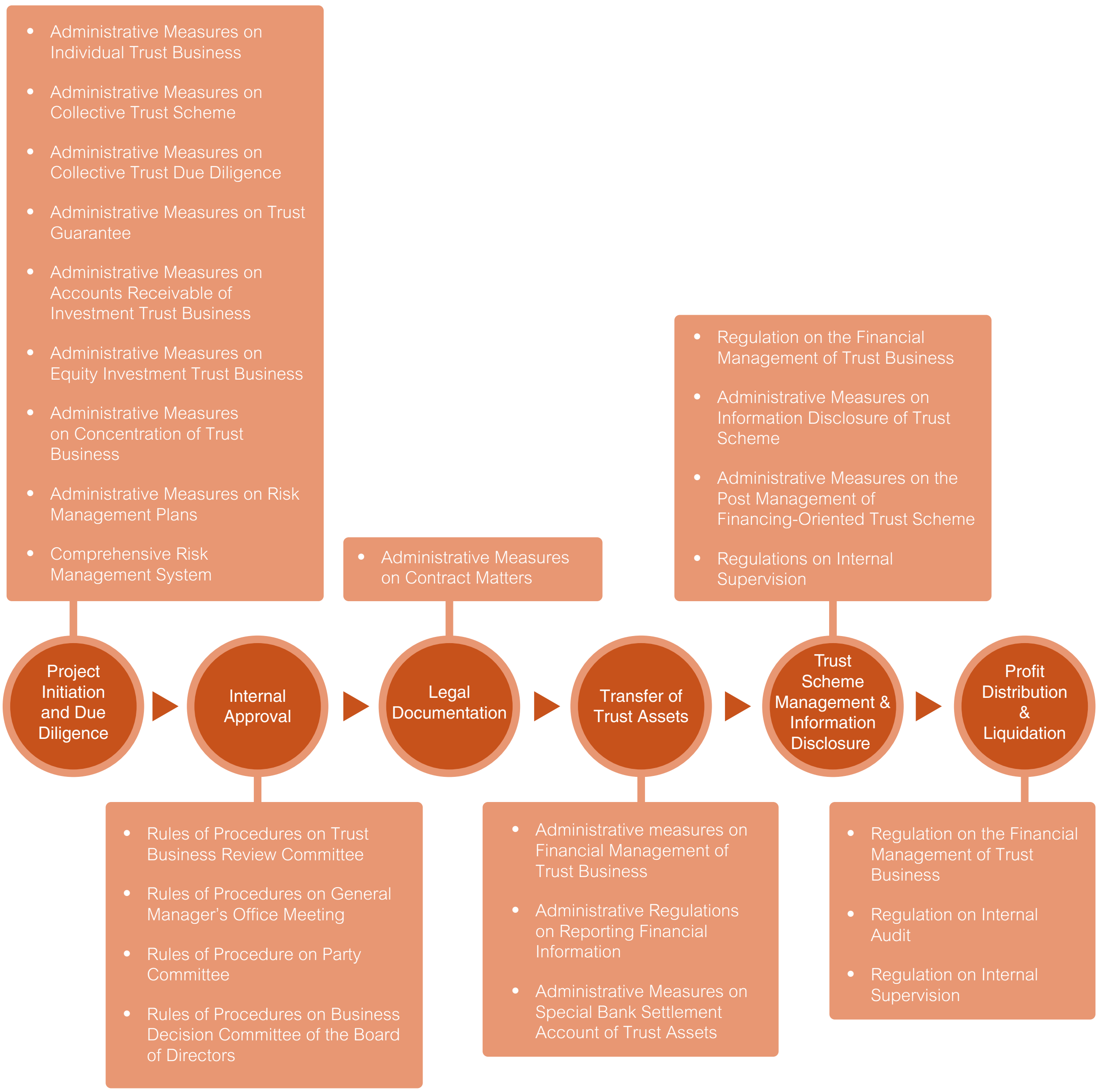
The Company values its positive market image which has been built over the years. It actively implements effective measures to avoid and prevent from any harm to its reputation. The Company formulated the Administrative Measures on Reputational Risk Management. During the reporting period, the Company 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.

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 are illustrated as follows:



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 Chief Risk Management Officer 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.

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 China Banking and Insurance Regulatory Commission 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 30 June 2018, the Company's net capital was approximately RMB7,572 million, which is not less than RMB200 million; the total risk-based capital was approximately RMB4,529 million; the ratio of net capital to total risk-based capital was 167.33%, which is not lower than 100%; and the ratio of net capital to net asset was 85.16%, which is not lower than 40%.

HUMAN RESOURCES MANAGEMENT

Targeted at enhancing human resources value for the human resources work in 2018, 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 transformation and upgrading.

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 employees are vital to the sustainable growth of the Company. 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 our 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 talents. 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.

As at 30 June 2017 and 30 June 2018, the Company has a total of 202 and 212 employees, respectively. The number and percentage of different employees by departments are as follows:

	30 June 2018		**30 June 2017**	
	Number of employees	%	**Number of employees**	**%**
Management	9	4.25	**8**	**3.96**
Trust business employees	75	35.38	**77**	**38.12**
Proprietary business employees	7	3.30	**5**	**2.48**
Wealth management employees	23	10.85	**20**	**9.90**
Risk management and audit employees	32	15.09	**34**	**16.83**
Financial and accounting employees	17	8.02	**16**	**7.92**
Operation management employees	32	15.09	**30**	**14.85**
Other staff[1]	17	8.02	**12**	**5.94**
Total	212	100	**202**	**100**

Note:

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

As at 30 June 2017 and 30 June 2018, the details of employees by age are as follows:

	30 June 2018		**30 June 2017**	
	Number of employees	%	**Number of employees**	**%**
Aged 25 and below	0	0	**6**	**2.97**
Aged 25–29	44	20.75	**47**	**23.27**
Aged 30–39	114	53.77	**99**	**49.01**
Aged 40 and above	54	25.47	**50**	**24.75**
Total	212	100	**202**	**100**

As at 30 June 2017 and 30 June 2018, the details of employees by education level are as follows:

	30 June 2018		**30 June 2017**	
	Number of employees	%	**Number of employees**	**%**
Doctoral degree and above	6	2.83	**6**	**2.97**
Master's degree	146	68.87	**138**	**68.32**
Bachelor's degree	50	23.58	**48**	**23.76**
Junior college and below	10	4.72	**10**	**4.95**
Total	212	100	**202**	**100**

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

CHANGE IN SHARE CAPITAL

Category of shares	31 December 2017 Number of shares	31 December 2017 Percentage (%)	Increase or decrease during the reporting period	30 June 2018 Number of shares	30 June 2018 Percentage (%)
Domestic Shares	1,941,175,000	75	–	**1,941,175,000**	**75**
H Shares	647,075,000	25	–	**647,075,000**	**25**
Total	2,588,250,000	100	–	**2,588,250,000**	**100**

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 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%

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]
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%
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 30 June 2018, 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.

(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 30 June 2018, 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, is deemed to be interested in all of the shares of the Company held by the trust assets of Ou Family Trust.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

PROFILE

Directors

As at the date of publication of this interim report, members of the Board of the Company include Mr. Wan Zhong ("**Mr. Wan**") and Mr. Yue Zengguang ("**Mr. Yue**") as executive Directors; Mr. Xiao Hua (vice chairperson) and Mr. Jin Tongshui as non-executive Directors; Mr. Yen Huai-chiang, Mr. Ding Huiping and Ms. Meng Rujing as independent non-executive Directors.

Supervisors

As at the date of publication of this interim report, the members of the Board of Supervisors include Mr. Guo Shougui, chairman of the Board of Supervisors, and Mr. Hou Zhenkai, Mr. Chen Yong, Mr. Wu Chen, Ms. Wang Zhimei, Mr. Guan Wei, Mr. Tian Zhiguo, Mr. Zuo Hui and Ms. Li Aiping, all being Supervisors.

Senior Management

As at the date of publication of this interim report, the members of the senior management include Mr. Yue Zengguang as the general manager, Ms. Zhou Jianqu as the vice general manager; Mr. He Chuangye as the vice general manager, the secretary to the Board and the joint company secretary; Mr. Ma Wenbo as the chief financial officer; Mr. Fu Jiguang as the chief risk management officer; and Mr. Niu Xucheng as the vice general manager.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes of Directors

Ms. Wang Yingli, the former executive Director and chairperson, ceased to serve as the executive Director and chairperson of the Company, and concurrently ceased to serve as the chairperson of the Human Resources and Nomination Committee (the "**Human Resources and Nomination Committee**"), the chairperson of the Business Decision Committee (the "**Business Decision Committee**"), and the chairperson of the Strategies and Risk Management Committee (the "**Strategies and Risk Management Committee**") of the Board due to the expiry of her term of office.

Mr. Wan Zhong has been appointed as the chairman of the Company by the Board, and his qualification to act as the chairman is subject to the approval by the Shandong Office of CBRC. Prior to the approval, Mr. Wan will perform the duties as the chairman of the Company.

Mr. Wan serves as the chairperson of the Human Resources and Nomination Committee, the chairperson of the Business Decision Committee and the chairperson of the Strategies and Risk Management Committee upon appointment by the Board. Mr. Wan ceased to serve as a member of the Remuneration Committee of the Board (the "**Remuneration Committee**"). Mr. Jin Tongshui was appointed as a member of the Remuneration Committee.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yue Zengguang was elected as an executive Director of the Company at the 2018 first extraordinary general meeting of the Company on 10 July 2018, and will serve as a member of the trust committee of the Board, the Business Decision Committee and the Strategies and Risk Management Committee under the Board upon appointment by the Board of the Company. The qualification of Mr. Yue to hold the office as an executive Director was approved by the Shandong Office of the CBRC on 28 August 2018, and his appointment of the above committees has become effective.

Changes of Supervisors

Upon expiry of term of office, Mr. Yang Gongmin and Mr. Wang Yuepu, the shareholder representative Supervisors, will cease to be the shareholder representative Supervisors of the Company.

Mr. Guo Shougui and Ms. Wang Zhimei were appointed as the shareholder representative supervisors of the second session of the Board of Supervisors at the 2018 first extraordinary general meeting.

Mr. Hou Zhenkai, a Supervisor, has been a director of Lucion Venture Capital Group Co., Ltd. (魯信創業投資集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600783) since March 2018.

Changes of Senior Management

Upon expiry of term of office, Mr. Wan Zhong, the former general manager of the Company, ceased to serve as the general manager of the Company.

The Company held the 23rd meeting of the first session of the Board on 22 January 2018, at which the Resolution on Appointment of the vice general manager of the Company was considered and approved, and the appointment of Mr. Niu Xucheng as the vice general manager of the Company was agreed. The qualification of Mr. Niu Xucheng to hold the office as the vice general manager has been approved by the Shandong Office of CBRC on 13 April 2018.

Mr. Yue Zengguang was elected as an executive Director of the Company at the 2018 first extraordinary general meeting of the Company held on 10 July 2018, and appointed as the general manager of the Company by the Board. The qualification of Mr. Yue to hold the office as the general manager was approved by the Shandong Office of the CBRC on 3 September 2018.

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

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.

Under provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual.

Ms. Wang Yingli, the former executive Director and chairperson of the Company, ceased to serve as an executive Director and the chairperson of the Company due to the expiry of her term of office. Mr. Wan Zhong was approved by the Board as the chairperson, and his qualification of holding the office shall be subject to the approval by the Shandong Office of CBRC. Prior to such approval, Mr. Wan will serve as the acting chairman of the Company.

Mr. Wan Zhong, the former general manager of the Company, ceased to serve as the general manager of the Company due to the expiry of his term of office. Mr. Yue Zengguang was appointed as an executive Director of the Company at the 2018 first extraordinary general meeting held on 10 July 2018, and served as the general manager of the Company upon appointment by the Board.

The qualification of Mr. Yue to hold the office as the general manager was approved by the Shandong Office of the CBRC on 3 September 2018. Provision A.2.1 of the Corporate Governance Code will be formally satisfied upon approval of the qualifications of Mr. Wan to hold the office as the chairperson of the Company by the Shandong Office of CBRC.

Prior to the approval by the Shandong Office of CBRC on the appointment qualification of Mr. Yue as the general manager of the Company, other executive Directors who possess relevant extensive expertise in the industry have taken the role in monitoring the daily management of the Company's business and operation.

Prior to the approval by the Shandong Office of CBRC on the appointment qualification of Mr. Wan as the chairperson of the Company, the Board will pay close attention to both overall strategic planning and development of the Company as well as the efficient operation of the Board.

The Board believes that, such arrangement continues to allow the Company to proceed decision-making and implement the same in a prompt manner with an aim to achieve the objectives of the Company effectively and efficiently so as to respond to the ever-changing environment. The Board will review the current condition from time to time and make necessary arrangement in due course.

Save as disclosed in this interim report, the Company has been in compliance with all code provisions as set out in the Corporate Governance Code during the reporting period. The Company will continue to review and monitor its corporate governance practice in order to ensure the compliance with the Corporate Governance Code.

SHAREHOLDERS' GENERAL MEETING

The Company held the 2017 annual general meeting in Jinan on 25 May 2018, at which 13 resolutions were considered and approved, including the 2017 Work Report of the Board, 2017 Work Report of the Independent Directors, 2017 Work Report of the Board of Supervisors, 2017 Final Account Report, 2017 Profit Distribution Plan, and the proposed change in the registered capital of the Company, the proposed amendments to the Articles of Association and the authorization to the Board to complete the approval and/or registration or filing of the amendments to the Articles of Association in accordance with relevant laws, regulations and requirements of relevant governmental authorities and regulatory authorities, and two of which were special resolutions; and listened to the 2017 Net Capital Report and the Report on the Due Payment of Trust Business of the Company and the Realization of the Interests of Beneficiaries of 2017.

The Shareholders' general meeting was convened in accordance with relevant laws, regulations and the Listing Rules. The Directors, Supervisors and senior management of the Company attended the meeting. The Company announced the poll results of the Shareholders' general meeting in due course in accordance with regulatory requirements.

THE BOARD

As at the date of the publication of this interim report, the Board of Directors comprised seven Directors, including two executive Directors, two non-executive Directors, and three independent non-executive Directors.

The qualification of Mr. Wan to act as chairman of the Company is subject to the approval by the Shandong Office of CBRC. Prior to the approval, Mr. Wan will perform the duties as the chairman of the Company.

Biographical details of Directors of the Company is consistent with the content disclosed in the 2017 annual report of the Company and in the circular published by the Company on 25 May 2018. There is no other change to be disclosed as required by Article 13.51B(1) of Listing Rules.

During the reporting period, the Company convened 3 board meetings and considered and approved 25 resolutions, including 2017 Work Report of the general manager, the Resolution on 2017 Financial Report (Draft), the Resolution on 2017 Profit Distribution Plan (Draft), the 2017 Work Report of the Board (Draft), and Resolution on the Establishment of Shandong Luxin Venture Capital New Old Kinetic Energy Conversion Parent Fund (limited partnership) (tentative name) with Proprietary Funds.

In the first half of 2018, the six committees under the Board of the Company convened a total of 49 meetings and considered and approved 126 resolutions, including the Resolution on 2017 Annual Report and Results Announcement (Draft), the Report on the Due Payment of Trust Business of the Company and the Realization of the Interests of Beneficiaries of 2017 (Draft), and the Resolution on the Election of the Non-employee Representative Directors for the Second Session of the Board of Shandong International Trust Co., Ltd. (Draft).

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 BOARD OF SUPERVISORS

As at the date of the publication of this interim report, the Board of Supervisors comprised nine Supervisors. 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 other Supervisors are elected and appointed by our Shareholders at the Shareholders' general meeting. Each of the Supervisors elected by our employees or by our Shareholders is appointed for a term of three years, which is eligible for re-election and re-appointment.

During the reporting period, the Board of Supervisors convened a total of 2 meetings and considered and approved 10 resolutions, including the 2017 Work Report of the Board of Supervisors of Shandong International Trust Co., Ltd. (Draft), the Resolution on Confirmation of 2017 Remuneration Plan for Supervisors (Draft) and the Resolution on Election of Shareholder Representative Supervisors for the Second Session of the Board of Supervisors (Draft).

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.

By attending meetings of the Board and its special committees, general manager's office meetings and other relevant meetings, the Board of Supervisors gets informed of decisions of the Company and information about operation and management, reviews and verifies the financial information, and strengthens its supervision over Directors, Supervisors and senior management's lawful operation and decision-making procedures for major issues. It also reinforces its supervision over Directors, Supervisors, senior management as well as the execution of resolutions of the Shareholders' general meeting, 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.

The Board of Supervisors supervised the regular periodic with the focus on truthfulness, accuracy and completeness of the financial reports, reviewed the audit plan and its implementation report and guided external audit work. 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. The Board of Supervisors particularly focused on a sound and organised implementation of the Company's risk management system, providing relevant opinions and suggestions on improving and perfecting the risk management system and the implementation of the risk prevention and control work.

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.

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 acted against the laws, regulations and the Articles of Association nor prejudiced the interests of the Company.

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 interim 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 leaded 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 routined 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.

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 audit during the reporting period based on the annual internal audit work plan for 2018. In addition, 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.

During the reporting period, the Company continued to promote 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, enhanced the execution of internal control measures, and optimized the establishment of risk control system. Details are as follows:

(1) The Company rationalized various rules and systems as well as operating procedures, and revised, optimized and supplemented the management measures and business operating procedures for all kinds of businesses in every aspects, which further established a more systematic, standardized and feasible rules and systems, streamlined procedures, got rid of the deficiencies thereof, and prevented business risks in all respects;

(2) The Company conducted dynamic monitoring on the quality of the system data used in the trust business, and supervised the processing of system data used in the trust business and the ongoing progress on the upgrade and perfection works through regular full-scope checking and random testing, with an aim to ensure the accuracy of the quality of system data for its businesses and provide great support for the increasing efficiency of operation and management;

(3) The Company conducted thorough inspection on the compliance of bank-trust cooperation and proactively mitigated potential risks via in-depth checking on the approval procedure, source of funds owned by the trustors, investment intention with trust funds, filing and maintenance of records for business and financial affairs, etc.; and

(4) The Company put greater efforts on education to combat corruption.

PROFITS AND DIVIDENDS DISTRIBUTION

The Company's establishment and implementation of cash dividend policy conforms to the regulations of the Articles of Association, as well as the requirements of the Shareholders' general meeting. The dividend standard and proportion are clear, and the decision-making procedure and mechanism are mature and have been approved by the independent non-executive Directors. Medium and minority shareholders may express their opinions and requests to maintain their legal rights.

As approved by the 2017 Annual General Meeting convened on 25 May 2018, the Company paid a cash dividend of RMB0.173 per share (tax inclusive) (the total dividend of approximately RMB447.8 million (tax inclusive)), on 21 June 2018, to holders of H Shares and Domestic Shares whose names appear on the register of the members of the Company on 7 June 2018.

The Company will not declare the interim dividend for the year 2018.

SIGNIFICANT EVENTS

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 the 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 Shares sold 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.

As at 30 June 2018, HK$2,074 million (equivalent to approximately RMB1,749.31 million) was settled to the Company's domestic accounts and was collected in full together with the Company's existing proprietary assets for allocation to different assets classes, significantly increasing the Company's net capital. Certain proceeds were retained overseas, and intended to be utilised for establishment of a Hong Kong subsidiary and expansion of international business.

CHANGE OF REGISTERED CAPITAL AND CAPITAL STRUCTURE

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. At the 2017 annual general meeting, the Company passed, by a special resolution, the resolution on the proposed change of registered capital. On 13 June 2018, the Company completed registration with authorities for industry and commence administration in relation to the change of registered capital. The registered capital of the Company was increased from RMB2,000,000,000 to RMB2,588,250,000.

In addition, during the reporting period, the Company neither changed its registered capital nor its capital structure.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATION

As at 30 June 2018, we, being the plaintiff and applicant, were involved in seven pending material litigations and arbitration cases involving an amount of more than RMB10 million for the dispute, the value of the litigations or arbitrations in which we were involved totaled approximately RMB1,557.8 million. These litigations or arbitrations were mainly brought by us against the relevant counterparty clients due to their failure to repay the loans granted by our trusts.

As at 30 June 2018, the Company, being the defendant, was involved in two pending litigations, of which the amount in dispute was more than RMB10 million, the total value of the litigation in which the Company was involved in amounted to RMB49.6 million. 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

In the first half of 2018, the Company, and its Directors, Supervisors and senior management were not subject to any penalty.

IMPLEMENTATION OF EQUITY INCENTIVE PLAN

During the reporting period, the Company did not implement any equity incentive plan.

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

During the reporting period, the Company did not purchase, sell or redeem any of the Company's listed securities.

MAJOR CLIENTS AND SUPPLIERS

During the reporting period, 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.

SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") specified in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions implemented by its Directors and Supervisors. After specific inquiry to all Directors and Supervisors, all Directors and Supervisors confirmed that during the reporting period, they all have complied with the standard regulations set out in the Model Code.

During the reporting period, the Company also adopted a set of code of conduct for securities transactions implemented by its employees not inferior to the standards set out in the Model Code, to allow employees who may access undisclosed inside information of the Company to purchase and sell securities of the Company as required.

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

During the reporting period, 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.

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

During the reporting period, none of the Directors, Supervisors, chief executive 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 SFO) 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 interim report, during the reporting period, 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.

PROVISIONAL REPORT ON MATERIAL ISSUES

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

AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim results of the Company for the six months ended 30 June 2018 and the financial statements for the six months ended 30 June 2018 prepared in accordance with the IFRS.

AUDITOR

PricewaterhouseCoopers was appointed as the auditor to review the financial statements for the six months ended 30 June 2018 prepared in accordance with the IFRS. The interim financial statements disclosed in the interim report were unaudited. The enclosed consolidated financial statements prepared in accordance with the IFRS have been reviewed by PricewaterhouseCoopers. The Company has retained PricewaterhouseCoopers since the date of preparation of its listing. PricewaterhouseCoopers retired as the Company's auditor at the end of the forthcoming shareholders' annual general meeting of the Company and, being eligible, offered themselves for re-appointment. A resolution was proposed for approval by Shareholders at the 2017 annual general meeting of the Company to consider and approve the re-appointment of PricewaterhouseCoopers as the Company's overseas auditor for auditing 2018 financial statements and reviewing interim financial statements and PricewaterhouseCoopers Zhong Tian LLP as the Company's domestic auditor for auditing 2018 financial statements, which was approved by the Shareholders.

SUBSEQUENT EVENTS

Change in joint company secretary and authorized representative

Ms. Lai Siu Kuen has resigned as the joint company secretary of the Company with effect from 31 August 2018. Given Ms. Lai's resignation, she ceased to act as (i) the joint company secretary of the Company; (ii) an authorized representative of the Company (the "**Authorized Representative**") pursuant to Rule 3.05 of the Listing Rules; and (iii) a service agent of the Company (the "**Process Agent**") for accepting service of process and notice on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) with effect from 31 August 2018. Mr. Lee Kwok Fai, Kenneth has been appointed as the joint company secretary, the Authorized Representative, and the Process Agent of the Company with effect from 31 August 2018. For biographical details of Mr. Lee, please refer to the announcement of the Company dated 31 August 2018.

Proposed Capitalisation Issue and Change in Board Lot Size

The Board proposed the issue of a total of 2,070,600,000 New Shares to the Shareholders, in the total amount of RMB2,070,600,000, by way of capitalisation of capital reserve fund of the Company on the basis of 8 New Shares for every 10 existing Shares then held (the "**Capitalisation Issue**"). For details on the Capitalisation Issue, please refer to the announcement of the Company dated 31 August 2018.

The H Shares of the Company are currently traded in board lots of 1,000 H Shares each. The Board proposed to change the board lot size of the H Shares for trading on the Hong Kong Stock Exchange from 1,000 H Shares to 1,800 H Shares (the "**Proposed Change in Board Lot Size**"), subject to the fulfilment of the conditions of the Capitalisation Issue. For details of the Proposed Change in Board Lot Size, please refer to the announcement of the Company dated 31 August 2018.

Proposed Amendments to the Articles of Association

The Company proposed to amend the Articles of Association in accordance with, among other things, the recent amendments to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), comments and instructions raised by the regulatory authorities including the Shandong Office of the CBIRC, the Listing Rules, the Mandatory Provisions for the Articles of Association of the Companies to be Listed Overseas (《到境外上市公司章程必備條款》) and the actual situations of the Company. Moreover, the Company proposed to amend the "China Banking Regulatory Commission" and the "CBRC" in the current Articles of Association to be the "China Banking and Insurance Regulatory Commission" and the "CBIRC", respectively, as the China Banking and Insurance Regulatory Commission was merged by the former China Banking Regulatory Commission and the China Insurance Regulatory Commission. The Company also proposed to amend the Articles of Association due to the subsequent changes in the registered capital of the Company after the completion of the proposed Capitalisation Issue. For details of the amendments to the Articles of Association, please refer to the announcement of the Company dated 31 August 2018.

Save for the above disclosed, there were no significant events subsequent to the reporting period.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SHANDONG INTERNATIONAL TRUST CO., LTD.
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 72 to 177, which comprises the condensed consolidated interim statement of financial position of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

OTHER MATTERS

The comparative information for the condensed consolidated interim statement of financial position is based on the audited financial statements as at 31 December 2017. The comparative information for the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2017 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 August 2018

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

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

		Six months ended 30 June	
	Note	**2018**	2017
Fee and commission income	3	**442,050**	614,701
Interest income	4	**351,740**	225,130
Net changes in fair value on financial assets at fair value through profit or loss		**9,051**	10,341
Investment (loss)/income	5	**(18,024)**	1,488
Net gains on disposal of associates held by consolidated structured entities	6	**160,851**	–
Other operating income		**5,361**	1,510
Total operating income		**951,029**	853,170
Interest expenses	7	**(43,778)**	(52,803)
Staff costs (including directors and supervisors' emoluments)	8	**(77,602)**	(81,902)
Operating lease payments		**(4,964)**	(4,571)
Depreciation and amortisation		**(4,115)**	(4,525)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**(26,751)**	(1,401)
Tax and surcharges		**(5,117)**	(5,513)
Other operating expenses		**(33,209)**	(22,891)
Auditor's remuneration		**(896)**	(1,175)
Loan impairment charges and other credit risk provision	10	**(277,272)**	(76,285)
Impairment losses on other assets	11	**(15,439)**	(19,458)
Total operating expenses		**(489,143)**	(270,524)
Share of profit of investments accounted for using the equity method		**83,814**	75,215
Operating profit before income tax		**545,700**	657,861
Income tax expense	12	**(119,309)**	(115,331)
Net profit attributable to shareholders of the Company		**426,391**	542,530

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

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

		Six months ended 30 June	
	Note	**2018**	2017
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		**N/A**	48,590
Share of other comprehensive income from investments accounted for using the equity method	29	**3,508**	(2,898)
Income tax relating to components of other comprehensive income		**–**	(12,147)
Total other comprehensive income, net of tax		**3,508**	33,545
Total comprehensive income attributable to shareholders of the Company		**429,899**	576,075
Basic and diluted earnings per share attributable to the shareholders of the Company *(in RMB yuan)*	13	**0.17**	0.27

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

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

	Note	**30 June 2018**	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	**117,368**	120,092
Intangible assets		**3,988**	4,617
Construction in progress		**15,704**	–
Investments accounted for using the equity method	15	**1,808,594**	1,902,034
Available-for-sale financial assets	16	**N/A**	636,221
Financial assets at fair value through profit or loss	24	**807,994**	N/A
Loans to customers	17	**2,486,748**	3,196,960
Financial investments-amortized cost	18	**90,394**	N/A
Investments classified as loans and receivables	19	**N/A**	223,511
Advance payments	20	**2,752**	18,993
Deferred income tax assets	21	**92,651**	74,708
Other non-current assets	22	**331,128**	348,087
Total non-current assets		**5,757,321**	6,525,223
Current assets			
Cash and bank balance	23	**1,383,059**	1,172,808
Financial assets at fair value through profit or loss	24	**524,661**	485,225
Financial assets purchased under resale agreements	25	**10,800**	951,400
Loans to customers	17	**5,087,312**	2,985,472
Financial investments-amortized cost	18	**43,408**	N/A
Investments classified as loans and receivables	19	**N/A**	20,479
Trustee's remuneration receivable		**191,145**	314,999
Interest receivable		**77,277**	58,864
Other current assets	26	**535,739**	387,577
Total current assets		**7,853,401**	6,376,824
Total assets		**13,610,722**	12,902,047
Equity and liabilities			
Share capital	27	**2,588,250**	2,588,250
Capital reserve	27	**2,181,790**	2,215,637
Statutory surplus reserve	28	**688,876**	688,876
Statutory general reserve	28	**718,772**	718,772
Other reserves	29	**(3,843)**	29,449
Retained earnings		**2,869,098**	2,906,556
Total equity		**9,042,943**	9,147,540

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

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

	Note	**30 June 2018**	31 December 2017
Liabilities			
Non-current liabilities			
Salary and welfare payable		**51,664**	44,974
Net assets attributable to other beneficiaries of consolidated structured entities	31	**912,545**	1,204,744
Total non-current liabilities		**964,209**	1,249,718
Current liabilities			
Short-term borrowings	32	**1,178,000**	328,000
Salary and welfare payable		**61,785**	37,046
Net assets attributable to other beneficiaries of consolidated structured entities	31	**1,725,248**	1,482,253
Income tax payable		**97,958**	178,863
Dividend payable		**3**	4,048
Other current liabilities	33	**540,576**	474,579
Total current liabilities		**3,603,570**	2,504,789
Total liabilities		**4,567,779**	3,754,507
Total equity and liabilities		**13,610,722**	12,902,047

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

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 31 August 2018 and signed on its behalf by：

Wan Zhong
Director

Yue Zengguang
Director

UNAUDITED CONDENSED CONSOLIDATED INTERIM 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 2018	**2,588,250**	**2,215,637**	**688,876**	**718,772**	**29,449**	**2,906,556**	**9,147,540**
Changes on initial application of IFRS 9 *(note 2.2)*	**–**	**–**	**–**	**–**	**(36,800)**	**(16,082)**	**(52,882)**
Restated balance at 1 January 2018	**2,588,250**	**2,215,637**	**688,876**	**718,772**	**(7,351)**	**2,890,474**	**9,094,658**
Net profit for the period	**–**	**–**	**–**	**–**	**–**	**426,391**	**426,391**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**3,508**	**–**	**3,508**
Total comprehensive income	**–**	**–**	**–**	**–**	**3,508**	**426,391**	**429,899**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Appropriation to statutory general reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid *(Note 30)*	**–**	**–**	**–**	**–**	**–**	**(447,767)**	**(447,767)**
Other	**–**	**(33,847)**	**–**	**–**	**–**	**–**	**(33,847)**
Balance at 30 June 2018	**2,588,250**	**2,181,790**	**688,876**	**718,772**	**(3,843)**	**2,869,098**	**9,042,943**
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 period	–	–	–	–	–	542,530	542,530
Other comprehensive income for the period	–	–	–	–	33,545	–	33,545
Total comprehensive income	–	–	–	–	33,545	542,530	576,075
Appropriation to statutory surplus reserve	–	–	–	–	–	–	–
Appropriation to statutory general reserve	–	–	–	–	–	–	–
Dividends paid *(Note 30)*	–	–	–	–	–	(254,212)	(254,212)
Balance at 30 June 2017	2,000,000	616,289	608,527	638,423	84,768	2,714,980	6,662,987

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

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

		Six months ended 30 June	
	Note	**2018**	2017
Cash flows from operating activities			
Profit before income tax		**545,700**	657,861
Adjustments for:			
Depreciation and amortization		**4,115**	4,525
Loan impairment charges and other credit risk provision	10	**277,272**	76,285
Impairment losses on other assets	11	**15,439**	19,458
Fair value changes in financial assets at fair value through profit or loss		**(9,051)**	(10,341)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**26,751**	1,401
Net gains on disposal of associates held by consolidated structured entities	6	**(160,851)**	–
Share of profit of investments accounted for using the equity method		**(83,814)**	(75,215)
Interest expense to China Trust Protection Fund Co., Ltd.		**31,698**	12,472
Investment income from available-for-sale investments		**N/A**	(1,409)
Subtotal		**647,259**	685,037
Net change in operating assets and operating liabilities:			
Increase in financial assets at fair value through profit or loss		**(202,158)**	(102,700)
Increase in loans to customers		**(1,671,000)**	(937,751)
Increase in investments classified as loans and receivables		**N/A**	(196,299)
Decrease in financial investments-amotized cost		**62,608**	N/A
Increase in other financial assets		**(63,544)**	–
Decrease/(Increase) in financial assets purchased under resale agreements		**940,600**	(204,409)
Net decrease/(increase) in other operating assets		**6,212**	(28,733)
Net increase in other operating liabilities		**13,049**	1,208,410
Cash used in operating activities before income tax		**(266,974)**	423,555
Income tax paid		**(137,251)**	(129,311)
Net cash (used in)/generated from operating activities		**(404,225)**	294,244

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

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

		Six months ended 30 June	
	Note	**2018**	2017
Cash flows from investing activities:			
Dividends received from investments accounted for using the equity method		**29,372**	–
Sales of available-for-sale financial assets		**N/A**	299,632
Proceeds from disposal of investment in associates		**226,659**	–
Purchase of property and equipment, intangible assets and other long-term assets		**(16,465)**	(812)
Purchase of available-for-sale financial assets		**N/A**	(414,302)
Purchase of investments accounted for using the equity method		**–**	(18,500)
Net cash generated from/(used in) investing activities		**239,566**	(133,982)
Cash flows from financing activities:			
Repayment of short-term borrowings from China Trust Protection Fund Co., Ltd.		**(268,000)**	(200,000)
Short-term borrowings from China Trust Protection Fund Co., Ltd.		**1,118,000**	–
Interest expense paid to China Trust Protection Fund Co., Ltd.		**(28,222)**	(12,473)
Dividends paid to shareholders	30	**(451,815)**	–
Net cash generated from/(used in) financing activities		**369,963**	(212,473)
Effect of exchange rate changes on cash and cash equivalents		**4,947**	(169)
Net increase/(decrease) in cash and cash equivalents		**210,251**	(52,380)
Cash and cash equivalents at the beginning of the period		**1,172,808**	274,486
Cash and cash equivalents at the end of the period	23	**1,383,059**	222,106
Net cash flows from operating activities including:			
Interest received		**333,328**	209,131
Interest paid		**84,238**	106,406

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

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. Its shares were listed on The Stock Exchange of Hong Kong Limited on the same day.

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. The Company and its subsidiaries are collectively referred to as "the Group".

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim financial reporting" and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Group adopted the going concern basis in preparing its condensed consolidated interim financial information.

The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Except as described below, the Group's accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the financial reports as at 31 December 2017.

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group

In the current period, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial period beginning on 1 January 2018 and the relevant impact is set out below:

IFRS 2	Classification and measurement of share-based payment transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendment to IAS 28	Investments in associates and joint ventures
Amendments to IAS 40	Transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Except IFRS 9, amendments to IFRSs effective for the financial period ended 30 June 2018 have no material impact on the Group's financial statements.

IFRS 9

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2.2. below.

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(a) Classification and measurement of financial instruments

The classification and measurement of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	31 December 2017	**Reclassification**	**Remeasurement**	**Expected credit loss**	**1 January 2018**
Financial assets					
Cash and bank balance	1,172,808	–	–	–	**1,172,808**
Financial assets at fair value through profit or loss ('FVPL')	485,225	692,773	197	–	**1,178,195**
Financial assets purchased under resale agreements	951,400	–	–	–	**951,400**
Loans to customers	6,182,432	–	–	(13,068)	**6,169,364**
Financial investments-amortized cost	N/A	189,110	–	182	**189,292**
Investments classified as loans and receivables	243,990	(243,990)	–	–	**–**
Investments accounted for using the equity method	1,902,034	–	(19,406)	–	**1,882,628**
Available-for-sale financial assets	636,221	(636,221)	–	–	**–**
Other financial assets	1,109,527	(1,672)	–	(42,262)	**1,065,593**
Subtotal	12,683,637	–	(19,209)	(55,148)	**12,609,280**
Non-financial assets					
Deferred income tax assets	74,708	–	(488)	11,061	**85,281**
Other non-financial assets	143,702	–	–	–	**143,702**
Subtotal	218,410	–	(488)	11,061	**228,983**
Total assets	12,902,047	–	(19,697)	(44,087)	**12,838,263**

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(a) Classification and measurement of financial instruments (Continued)

	31 December 2017	**Reclassification**	**Remeasurement**	**Expected credit loss**	**1 January 2018**
Net assets attributable to other beneficiaries of consolidated structured entities	2,686,997	–	–	(10,902)	**2,676,095**
Others	1,067,510	–	–	–	**1,067,510**
Total liabilities	3,754,507	–	–	(10,902)	**3,743,605**
Other reserves	29,449	(36,800)	–	–	**(7,351)**
Retained earnings	2,906,556	36,800	(19,697)	(33,185)	**2,890,474**
Other equity	6,211,535	–	–	–	**6,211,535**
Total equity	9,147,540	–	(19,697)	(33,185)	**9,094,658**
Total equity and liabilities	12,902,047	–	(19,697)	(44,087)	**12,838,263**

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Ref	IAS 39 carrying amount 31 December 2017	**Reclassification**	**Remeasurement**	**Expected credit loss**	**IFRS 9 carrying amount 1 January 2018**
Amortised Cost						
Cash and bank balance						
Opening balance under IAS 39 and closing balance under IFRS 9		1,172,808				**1,172,808**
Financial assets purchased under resale agreements						
Opening balance under IAS 39 and closing balance under IFRS 9		951,400				**951,400**
Loans to customers						
Opening balance under IAS 39		6,182,432				
Remeasurement: ECL allowance					(13,068)	
Closing balance under IFRS 9						**6,169,364**

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount 31 December 2017	**Reclassification**	**Remeasurement**	**Expected credit loss**	**IFRS 9 carrying amount 1 January 2018**
Investments classified as loans and receivables						
Opening balance under IAS 39		243,990				
Subtraction: To Financial investments-amortized cost (IFRS 9)	(C)		(189,110)			
Subtraction: To fair value through profit or loss (FVPL) (IFRS 9)	(A)		(54,880)			
Closing balance under IFRS 9						**-**
Financial investments-amortized cost						
Opening balance under IAS 39						
Addition: from Investments classified as loans and receivables	(C)		189,110			
Remeasurement: ECL allowance					182	
Closing balance under IFRS 9						**189,292**
Other financial assets						
Opening balance under IAS 39		1,109,527				
Subtraction: To FVPL (IFRS 9)			(1,672)			
Remeasurement: ECL allowance					(42,262)	
Closing balance under IFRS 9						**1,065,593**

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	Expected credit loss	IFRS 9 carrying amount 1 January 2018
Total financial assets measured at amortised cost		9,660,157	(56,552)		(55,148)	**9,548,457**
Fair value through profit or loss (FVPL)						
Opening balance under IAS 39		485,225				
Addition: from Investments classified as loans and receivables	(A)		56,552	197		
Addition: from Available-for-sale financial assets	(B)		636,221			
Closing balance under IFRS 9						**1,178,195**
Total financial assets measured at FVPL		485,225	692,773	197		**1,178,195**
Fair value through other comprehensive income (FVOCI)						
Available-for-sale financial assets		636,221				
Subtraction: To FVPL (IFRS 9)	(B)		(636,221)			
Closing balance under IFRS 9						**–**
Total fair value through other comprehensive income (FVOCI)		636,221	(636,221)			**–**

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Total remeasurement loss of RMB52,882 thousand was recognized in the opening retained earnings at 1 January 2018. In addition, an amount of RMB36,800 thousand was reclassified from other reserves to retained earnings at 1 January 2018 in respect of reclassification of available-for-sale financial assets to financial assets at FVPL.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(A) Debt instruments

The Group holds a portfolio of debt instruments that failed to meet the 'solely payments of principal and interest' (SPPI) requirement for amortised cost classification under IFRS 9. As a result, these instruments,which amounted to RMB54,880 thousand, were classified as financial assets measured at FVPL from the date of initial application.

(B) Equity instruments

The Group has elected to irrevocably designate equity investments of RMB113,161 thousand which previously classified as available-for-sale financial assets to financial assets at FVPL as permitted under IFRS 9.

(C) Reclassification from retired categories with no change in measurement

In addition to the above, the debt instruments, which previously classified as Investments classified as loans and receivables and now classified as measured at amortised cost, have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no change to their measurement basis.

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

2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Expected credit loss	Loan loss allowance under IFRS 9
Amortised cost					
Loans to customers	398,760	–	–	13,068	411,828
Financial investments-amortized cost	–	15,187	–	(182)	15,005
Investments classified as loans and receivables	16,306	(16,306)	–	–	–
Other financial assets	3,129	–	–	42,262	45,391
Total	418,195	(1,119)	–	55,148	472,224

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 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
IFRIC 23	Uncertainty over Income Tax	1 January 2019
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 16	Leases	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

IFRS 16

For the lessee, 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 unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of RMB1,783 thousand (Note 35). However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 New standards and interpretations not yet adopted (Continued)

IFRS 16 (Continued)

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Except the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies

2.2.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

Measurement methods (Continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest 'SPPI', and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net changes in fair value on financial assets at fair value through profit or loss' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Investment income'.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Equity instruments (Continued)

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Investment income' line in the statement of profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(iii) Modification of loans (Continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.1 Financial assets (Continued)

(iv) Derecognition other than on a modification (Continued)

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.2 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.1 Financial assets and liabilities (Continued)

2.2.1.2 Financial liabilities (Continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Changes in principal accounting policies (Continued)

2.2.2 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 2.3.1); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 2.3.1). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

As at 30 June 2018, the Group did not have financial guarantee contracts and loan commitments (31 December 2017: None).

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.3 Critical accounting estimates and judgements

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. Except as described below, 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 outlined below are consistent with these policies applied in preparing the financial reports as at 31 December 2017.

2.3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 39.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

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

3 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Fee and commission income		
Trustee's remuneration	**439,350**	610,918
Others	**2,700**	3,783
Total	**442,050**	614,701

4 INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income from		
Cash and bank balance	**3,612**	945
Loans to customers	**326,248**	204,320
Investments classified as financial investments-amortized cost	**7,992**	N/A
Investments classified as loans and receivables	**N/A**	7,204
Financial assets purchased under resale agreements	**10,281**	11,839
Contribution to Trust Industry Protection Fund on behalf of trust schemes	**3,607**	822
Total	**351,740**	225,130
Including: Interest income from impaired financial assets	**11,522**	3,349

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

5 INVESTMENT (LOSS)/INCOME

	Six months ended 30 June	
	2018	2017
Dividends income from:		
Financial assets at fair value through profit or loss	**5,688**	–
Net realised gains/(losses) from:		
Financial assets at fair value through profit or loss	**(23,712)**	79
Available-for-sale financial assets	**N/A**	1,409
Total	**(18,024)**	1,488

6 NET GAINS ON DISPOSAL OF ASSOCIATES HELD BY CONSOLIDATED STRUCTURED ENTITIES

	Six months ended 30 June	
	2018	2017
Shanghai Ruice Investment Co., Ltd. ("Shanghai Ruice") *(i)*	**155,357**	N/A
Tailong Health Industry Investment Company Limited ("Tailong Health") *(ii)*	**5,494**	N/A
Total	**160,851**	N/A

(i) In June 2018, the Group disposed of all its equity interest in Shanghai Ruice at a price of RMB199,000 thousand, resulting in a gain on disposal of RMB155,357 thousand.

(ii) In March 2018, the Group disposed of 13.95% of its equity interest in Tailong Health at a price of RMB33,394 thousand, resulting in a gain on disposal of RMB5,494 thousand.

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

7 INTEREST EXPENSE

	Six months ended 30 June	
	2018	2017
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	**31,698**	12,472
Third-party beneficiaries' interests *(i)*	**12,080**	40,331
Total	**43,778**	52,803

(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 condensed consolidated interim statements of financial position (Note 34).

8 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Six months ended 30 June	
	2018	2017
Salaries and bonuses	**62,301**	71,845
Pension costs (defined contribution plans)	**2,847**	2,396
Housing funds	**1,961**	1,989
Labour union fee and staff education expenses	**180**	2,394
Other social security and benefit costs	**10,313**	3,278
Total	**77,602**	81,902

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

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

	Six months ended 30 June 2018				
Name	**Fees**	**Salaries and allowances and benefits**	**Discretionary bonuses**	**Contribution to pension schemes**	**Total**
Executive Director					
Wang Yingli *(i)*	–	–	–	–	–
Wan Zhong *(ii)*	–	300	728	17	1,045
Non-Executive Directors					
Xiao Hua	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	50	–	–	–	50
Ding Huiping	50	–	–	–	50
Meng Rujing	50	–	–	–	50
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	840	983	17	1,840
Li Aiping	–	187	191	17	395
Zuo Hui	–	206	177	17	400
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Guan Wei	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Total	150	1,533	2,079	68	3,830

(i) Wang Yingli ceased to be executive director effective in July 2018.

(ii) Pursuant to the resolution of the Board meeting on 10 July 2018, Wan Zhong was elected chairman of the Board.

Discretionary bonuses are based on the business performance and government guidelines.

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

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows (Continued):

	Six months ended 30 June 2017				
Name	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Director					
Wang Yingli	–	–	48	–	48
Wan Zhong	–	277	868	16	1,161
Non-Executive Directors					
Xiao Hua *(i)*	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Wang Liang *(ii)*	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	50	–	–	–	50
Ding Huiping	50	–	–	–	50
Meng Rujing	50	–	–	–	50
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	783	832	16	1,631
Li Aiping	–	186	314	16	516
Zuo Hui	–	186	314	16	516
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Guan Wei *(iii)*	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Ding Jian *(iv)*	–	–	–	–	–
Total	150	1,432	2,376	64	4,022

(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.

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

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

For the six months ended 30 June 2018, the five highest paid individuals in the Group includes one supervisor, whose emoluments have been disclosed above (for the six months ended 30 June 2017: no director and supervisor).

The emoluments of the five highest paid individuals for the six months ended 30 June 2018 and 2017 are as follows:

	Six months ended 30 June	
	2018	2017
Salaries and allowances and benefits	**5,086**	7,155
Discretionary bonuses	**10,241**	13,338
Contribution to pension schemes	**86**	79
Total	**15,413**	20,572

The emoluments fell within the following bands:

	Number of Individuals Six months ended 30 June	
	2018	2017
RMB500,001 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**–**	–
RMB1,500,001 – RMB2,000,000	**3**	–
RMB2,000,001 – RMB2,500,000	**1**	1
RMB2,500,001 – RMB3,000,000	**–**	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	**–**	1
RMB5,000,001 – RMB5,500,000	**–**	–
RMB5,500,001 – RMB6,000,000	**–**	–
Above RMB6,000,000	**1**	1
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.

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

10 LOAN IMPAIRMENT CHARGES AND OTHER CREDIT RISK PROVISION

	Six months ended 30 June	
	2018	2017
Loans to customers	**254,392**	72,318
Financial investments-amortized cost	**4,791**	N/A
Investments classified as loans and receivables	**N/A**	3,967
Trustee's remuneration receivable	**11,624**	–
Interest receivable	**5,198**	–
Others	**1,267**	–
Total	**277,272**	76,285

11 IMPAIRMENT LOSSES ON OTHER ASSETS

	Six months ended 30 June	
	2018	2017
Available-for-sale financial assets	**N/A**	19,458
Art investment	**15,439**	–
Total	**15,439**	19,458

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

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
Current income tax	**126,678**	141,461
Deferred income tax *(Note 21)*	**(7,369)**	(26,130)
Total	**119,309**	115,331

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.

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:

	Six months ended 30 June	
	2018	2017
Profit before income tax	**545,700**	657,861
Tax calculated at a tax rate of 25%	**136,425**	164,465
Tax effect arising from income not subject to tax *(i)*	**(31,829)**	(58,021)
Tax effect of expenses that are not deductible for tax purposes *(ii)*	**14,713**	8,887
Income tax expense	**119,309**	115,331

(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.

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

13 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 periods.

	Six months ended 30 June	
	2018	2017
Net profit attributable to shareholders of the Company	**426,391**	542,530
Weighted average number of ordinary shares in issue	**2,588,250**	2,000,000
Basic earnings per share *(in RMB yuan)*	**0.17**	0.27

(b) Diluted earnings per share

For the six months ended 30 June 2018 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.

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

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Equipment	Furniture and others	Total
Cost					
At 1 January 2018	**138,374**	**3,847**	**10,809**	**2,328**	**155,358**
Additions	**–**	**–**	**1,037**	**206**	**1,243**
Disposals	**–**	**–**	**(1,022)**	**–**	**(1,022)**
At 30 June 2018	**138,374**	**3,847**	**10,824**	**2,534**	**155,579**
Accumulated depreciation					
At 1 January 2018	**(24,864)**	**(3,097)**	**(6,797)**	**(508)**	**(35,266)**
Charge for the period	**(2,869)**	**(155)**	**(811)**	**(102)**	**(3,937)**
Disposals	**–**	**–**	**992**	**–**	**992**
At 30 June 2018	**(27,733)**	**(3,252)**	**(6,616)**	**(610)**	**(38,211)**
Net book value					
At 30 June 2018	**110,641**	**595**	**4,208**	**1,924**	**117,368**
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 period	(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

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

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) The amounts recognised in the balance sheet are as follows:

	30 June 2018	31 December 2017
Associates of the Company		
Fullgoal Fund Management Co., Ltd. *(i)*	**506,983**	473,176
Dezhou Bank Co., Ltd. ("Dezhou Bank") *(ii)*	**120,265**	139,152
First-Trust Fund Management Co., Ltd. ("First-trust FMC") *(iii)*	**93,601**	105,642
Shandong HOWO Auto Finance Co., Ltd. *(iv)*	**170,923**	169,887
Zouping SPD Rural Bank Co., Ltd. *(viii)*	**18,981**	26,157
Taishan Property & Casualty Insurance Co., Ltd. *(v)*	**210,175**	211,147
Gross amount	**1,120,928**	1,125,161
Less: Impairment allowance	**–**	–
Associates of the Company, net	**1,120,928**	1,125,161
Associates of the Company's certain consolidated structured entities		
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") *(vi)*	**593,066**	618,730
Tailong Health Industry Investment Company Limited ("Tailong Health") *(vii)*	**52,100**	80,000
Others *(viii)*	**42,500**	78,143
Gross amount	**687,666**	776,873
Less: Impairment allowance	**–**	–
Associates of the Company's certain consolidated structured entities, net	**687,666**	776,873
Total	**1,808,594**	1,902,034

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

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates

Set out below are the associates of the Group as at 30 June 2018 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	10.71%	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	26.05%	Equity

The Group has one seat on the board of Fullgoal Fund Management Co., Ltd., Dezhou Bank Co., Ltd., Shandong HOWO Auto Finance 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%,10.71%, 9.85% and 4.95% of the voting rights respectively.

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

15 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

	30 June 2018	31 December 2017
Current assets	**3,556,474**	3,460,735
Non-current assets	**753,897**	720,294
Total assets	**4,310,371**	4,181,029
Current liabilities	**(708,398)**	(1,014,238)
Non-current liabilities	**(561,596)**	(329,152)
Total liabilities	**(1,269,994)**	(1,343,390)
Net assets	**3,040,377**	2,837,639

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**1,185,347**	1,118,824
Profit from continuing operations	**462,144**	445,015
Post-tax profit from continuing operations	**350,305**	336,594
Other comprehensive income/(loss)	**2,433**	(1,649)
Total comprehensive income	**352,738**	334,945
Dividends received/receivable from associate	**25,013**	55,028

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.

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

15 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

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**2,837,639**	2,458,644
Profit for the period/year	**350,305**	714,978
Dividend distribution	**(150,000)**	(330,000)
Other comprehensive income/(loss)	**2,433**	(5,983)
Net assets at the end of the period/year	**3,040,377**	2,837,639
Percentage of the Group's interests in the associate	**16.68%**	16.68%
Carrying amount of the Group's interest in the associate	**506,983**	473,176

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

15 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

	30 June 2018	31 December 2017
Total assets	**44,321,750**	45,317,441
Total liabilities	**(40,805,226)**	(41,841,237)
Net assets	**3,516,524**	3,476,204

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**692,527**	538,070
Profit from continuing operations	**292,938**	216,754
Post-tax profit from continuing operations	**242,938**	183,754
Other comprehensive income/(loss)	**60,341**	(20,517)
Total comprehensive income	**303,279**	163,237
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.

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

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(ii) Dezhou Bank (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

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**3,251,204**	3,327,428
Application of IFRS 9	**(263,019)**	–
Profit for the period/year	**242,938**	67,284
Other comprehensive income/(loss)	**60,341**	(143,515)
Capital contribution received	**225,060**	7
Net assets at the end of the period/year	**3,516,524**	3,251,204
Percentage of the Group's interests in the associate	**3.42%**	4.28%
Carrying amount of the Group's interest in the associate	**120,265**	139,152

Note: Dezhou Bank obtained additional capital contribution from other investors on 28 December 2017 which increased its share capital by RMB225 million. The Company's share was diluted from 4.28% to 3.42% as a result.

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

15 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

	30 June 2018	31 December 2017
Current assets	**288,904**	240,186
Non-current assets	**222,578**	212,396
Total assets	**511,482**	452,582
Current liabilities	**(27,143)**	(139,058)
Non-current liabilities	**(276,337)**	(78,763)
Total liabilities	**(303,480)**	(217,821)
Net assets	**208,002**	234,761

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**27,720**	39,024
Loss from continuing operations	**(18,458)**	(4,184)
Post-tax loss from continuing operations	**(26,759)**	(4,340)
Other comprehensive income	**–**	–
Total comprehensive income	**(26,759)**	(4,340)
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.

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

15 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)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate

Summarised financial statements

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**234,761**	256,303
Loss for the period/year	**(26,759)**	(23,203)
Other comprehensive income	**–**	1,661
Net assets at the end of the period/year	**208,002**	234,761
Percentage of the Group's interests in the associate	**45.00%**	45.00%
Carrying amount of the Group's interest in the associate	**93,601**	105,642

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

15 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

	30 June 2018	31 December 2017
Current assets	**5,198,565**	3,571,166
Non-current assets	**2,362,881**	1,964,553
Total assets	**7,561,446**	5,535,719
Current liabilities	**(5,966,167)**	(4,969,430)
Non-current liabilities	**–**	–
Total liabilities	**(5,966,167)**	(4,969,430)
Net assets	**1,595,279**	566,289

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**234,008**	91,116
Profit from continuing operations	**91,491**	34,310
Post-tax profit from continuing operations	**71,752**	25,946
Other comprehensive income	**–**	–
Total comprehensive income	**71,752**	25,946

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.

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

15 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

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**566,289**	506,679
Profit for the period/year	**71,752**	59,610
Capital contribution received	**957,238**	–
Net assets at the end of the period/year	**1,595,279**	566,289
Percentage of the Group's interests in the associate	**10.71%**	30.00%
Carrying amount of the Group's interest in the associate	**170,923**	169,887

Note: Shandong HOWO Auto Finance Co., Ltd. obtained additional capital contribution from other investors on 18 April 2018 which increased its share capital by RMB 900 million. The Company's share was diluted from 30% to 10.71% as a result.

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

15 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

	30 June 2018	31 December 2017
Current assets	**2,253,151**	1,948,509
Non-current assets	**1,672,445**	1,879,981
Total assets	**3,925,596**	3,828,490
Current liabilities	**(2,015,570)**	(1,912,059)
Non-current liabilities	**(5,214)**	(1,162)
Total liabilities	**(2,020,784)**	(1,913,221)
Net assets	**1,904,812**	1,915,269

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**839,983**	829,025
Profit from continuing operations	**(21,526)**	16,186
Post-tax (loss)/profit from continuing operations	**(21,000)**	15,992
Other comprehensive income	**10,544**	41,726
Total comprehensive income	**(10,456)**	57,718

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.

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

15 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

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**1,915,268**	1,950,244
Including: Net assets attributable to minority shareholders	**–**	52,213
Profit/(Loss) for the period/year	**(21,000)**	25,672
Including: Profit/(loss) attributable to minority shareholders	**(580)**	1,374
Other comprehensive income	**10,544**	(60,647)
Net assets at the end of the period/year	**1,904,812**	1,915,269
Including: Net assets attributable to minority shareholders	**53,007**	53,587
Percentage of the Group's interests in the associate	**9.85%**	9.85%
Carrying amount of the Group's interest in the associate	**210,175**	211,147
Including: Goodwill	**27,771**	27,771

Note: The associate was reclassified from Available-for-sale to Long-term investment in August 2017 with carrying amount of RMB 212.34 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.

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

15 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

	30 June 2018	31 December 2017
Current assets	**23,604,235**	16,390,978
Non-current assets	**15,674,813**	18,312,318
Total assets	**39,279,048**	34,703,296
Current liabilities	**(9,148,252)**	(9,016,299)
Non-current liabilities	**(18,683,498)**	(13,879,501)
Total liabilities	**(27,831,750)**	(22,895,800)
Net assets	**11,447,298**	11,807,496
Including: Net assets attributable to Type C shareholders	**8,042,571**	8,397,252

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**936,492**	545,604
Profit from continuing operations	**413,424**	260,438
Post-tax profit from continuing operations	**269,243**	180,780
Including: Post-tax profit attributable to Type C shareholders	**205,509**	111,380
Other comprehensive income	**–**	16,501
Total comprehensive income	**269,243**	197,281
Dividends received/receivable from the associate	**30,922**	–

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

15 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

	30 June 2018	31 December 2017
Closing net assets attributable to Type C shares	**8,042,571**	8,397,252
Percentage of the Group's interests in Type C shares	**7.24%**	7.24%
Group's share in the associate	**581,961**	607,625
Goodwill	**11,105**	11,105
Carrying amount of the Group's interest in the associate	**593,066**	618,730

	30 June 2018	31 December 2017
Net assets attributable to Type C shareholders at the beginning of the period	**8,397,252**	7,838,579
Application of IFRS 9	**(76,490)**	N/A
Post-tax profit attributable to Type C shareholders	**205,509**	558,673
Profit distribution	**(483,700)**	–
Other Comprehensive Income	**–**	–
Closing net assets attributable to Type C shareholders	**8,042,571**	8,397,252
Percentage of the Group's interests in the associate	**7.24%**	7.24%
Group's share in the associate	**581,961**	607,625
Goodwill	**11,105**	11,105
Carrying amount of the Group's interest in the associate	**593,066**	618,730

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

15 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)

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.

(vii) Tailong Health

Summarised balance sheet

	30 June 2018	31 December 2017
Current assets	**10,782**	90,734
Non-current assets	**204,556**	99,946
Total assets	**215,338**	190,680
Current liabilities	**(5,226)**	(76)
Non-current liabilities	**(11,055)**	(11,700)
Total liabilities	**(16,281)**	(11,776)
Net assets	**199,057**	178,904

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

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

Summarised Financial Statements for significant associates (Continued)

(vii) Tailong Health (Continued)

Summarised statement of comprehensive income

	Six months ended 30 June	
	2018	2017
Revenue	**669**	922
Profit/(Loss) from continuing operations	**153**	(922)
Post-tax profit/(loss) from continuing operations	**153**	(922)
Other comprehensive income	**–**	–
Total comprehensive income	**153**	(922)

Reconciliation of summarised financial statements

Reconciliation of the summarised financial statements presented to the carrying amount of its interest in associate.

Summarised financial statements

	30 June 2018	31 December 2017
Net assets at the beginning of the period/year	**178,904**	178,977
Profit/(Loss) for the period/year	**153**	(73)
Capital contribution received	**20,000**	–
Other comprehensive income	**–**	–
Closing net assets	**199,057**	178,904
Percentage of the Group's interests in the associate	**26.05%**	40.00%
Carrying amount of the Group's interest in the associate	**52,100**	80,000

Note: In March 2018, the Group disposed of 13.95% of its equity interest in Tailong Health at a price of RMB33,394 thousand, resulting in a gain on disposal of RMB5,494 thousand.

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

15 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

	30 June 2018	31 December 2017
Carrying amount at the beginning of the period/year	**104,300**	90,869
Application of IFRS 9	**(2,613)**	N/A
Acquisition during the period/year	**–**	18,500
Disposal during the period/year *(Note 6(i))*	**(43,643)**	–
Share of net profits for the period/year	**3,437**	(4,351)
Cash dividend receivable/received	**–**	(718)
Carrying amount at the end of the period/year	**61,481**	104,300

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.

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2018	31 December 2017
Listed equity shares (at fair value) *(i)*	**N/A**	5,431
Unlisted financial instruments (at fair value)		
– Equity investments in unlisted companies *(ii)*	**N/A**	113,161
– Mutual funds	**N/A**	276,832
– Asset management products *(iii)*	**N/A**	167,729
– Trust Industry Protection Fund *(iv)*	**N/A**	68,626
– Others	**N/A**	4,442
Total	**N/A**	636,221

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

(i) As at 31 December 2017, listed equity shares at the fair value of RMB 3,799 thousand are restricted for sale until 1 August 2018.

(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 2017.

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

16 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

(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.

17 LOANS TO CUSTOMERS

(a) Analysis of loans to customers

	30 June 2018	31 December 2017
Loans to customers-at amortised cost	**8,252,190**	6,581,191
Less: ECL allowance	**(678,130)**	N/A
Collectively assessed	**N/A**	(114,726)
Individually assessed	**N/A**	(284,033)
Loans to customers, net	**7,574,060**	6,182,432
Presented as:		
Non-current assets	**2,486,748**	3,196,960
Current assets	**5,087,312**	2,985,472
Loans to customers, net	**7,574,060**	6,182,432

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

17 LOANS TO CUSTOMERS (CONTINUED)

(b) Movements of ECL allowance

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018 (Restated)	**118,331**	**15,904**	**277,593**	**411,828**
Provision for impairment	**36,516**	**322**	**217,554**	**254,392**
Reversal of impairment allowances	–	–	–	–
Written-off	–	–	–	–
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	**506**	–	**11,404**	**11,910**
Loss allowance as at 30 June 2018	**155,353**	**16,226**	**506,551**	**678,130**

	Year ended 31 December 2017	
	Collective assessment	Individual assessment
Balance at beginning of the year	66,716	144,740
Net impairment allowances charged to profit or loss	48,010	139,293
Balance at end of the year	114,726	284,033

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

18 FINANCIAL INVESTMENTS-AMORTIZED COST

(a) Analysis of financial investments-amortized cost

	30 June 2018	31 December 2017
Financial investments-amortized cost, gross *(i)*	**141,688**	N/A
Less: ECL allowance	**(7,886)**	N/A
Financial investments-amortized cost, net	**133,802**	N/A
Presented as:		
Non-current assets	**90,394**	N/A
Current assets	**43,408**	N/A
Financial investments-amortized cost, net	**133,802**	N/A

(i) Financial investments-amortized cost 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.

(b) Movements of ECL allowance

	Stage 1 12–month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	**1,813**	**1,788**	**11,404**	**15,005**
Provision for impairment	**780**	**(2)**	**4,013**	**4,791**
Reversal of impairment allowances	–	–	–	–
Written-off	–	–	–	–
Transfers:	–	–	–	–
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	**(506)**	–	**(11,404)**	**(11,910)**
Loss allowance as at 30 June 2018	**2,087**	**1,786**	**4,013**	**7,886**

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

19 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

(a) Investments classified as loans and receivables are analysed as follows

	30 June 2018	31 December 2017
Investments classified as loans and receivables, gross *(i)*	**N/A**	260,296
Less: Allowance for impairment loses	**N/A**	
Collectively assessment	**N/A**	(4,902)
Individually assessment	**N/A**	(11,404)
Investments classified as loans and receivables, net	**N/A**	243,990
Presented as:		
Non-current assets	**N/A**	223,511
Current assets	**N/A**	20,479
Investments classified as loans and receivables, net	**N/A**	243,990

(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.

(b) Movements on allowance for losses on investments classified as loans and receivables

	Year ended 31 December 2017	
	Collective assessment	Individual assessment
Balance at the beginning of the period	3,687	–
Net impairment allowances charged to profit or loss	1,215	11,404
Balance at the end of the period	4,902	11,404

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

20 ADVANCE PAYMENTS

	30 June 2018	31 December 2017
Prepayment for purchasing property	–	15,849
Other	2,752	3,144
Total	2,752	18,993

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 2018	Application of IFRS 9	Charged to profit or loss	Charged to other comprehensive income	At 30 June 2018
Deferred income tax assets:					
Impairment allowances for assets	67,435	11,062	52,269	–	130,766
Staff Salary and welfare payable	20,506	–	7,857	–	28,363
Others	544	–	44	–	588
Subtotal	88,485	11,062	60,170	–	159,717
Deferred income tax liabilities:					
Fair value changes of financial assets at fair value through profit or loss	2,665	(10,842)	3,560	–	(4,617)
Fair value changes of available-for-sale financial assets	(16,442)	10,354	6,088	–	–
Others	–	–	(62,449)	–	(62,449)
Subtotal	(13,777)	(488)	(52,801)	–	(67,066)
Net deferred income tax assets	74,708	10,574	7,369	–	92,651

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

21 DEFERRED INCOME TAXES (CONTINUED)

	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

22 OTHER NON-CURRENT ASSETS

	30 June 2018	31 December 2017
Investment in art work	**55,917**	71,357
Contribution to Trust Industry Protection Fund for trust schemes *(i)*	**275,211**	276,730
Total	**331,128**	348,087

(i) 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 24.

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

23 CASH AND BANK BALANCE

(a) Cash and bank balance

	30 June 2018	31 December 2017
Cash in hand	**22**	62
Cash at banks	**1,383,037**	1,172,746
Total	**1,383,059**	1,172,808

(b) Cash and cash equivalents in the consolidated statement of cash flow

	30 June 2018	31 December 2017
Cash in hand	**22**	62
Cash at banks	**1,383,037**	1,172,746
Total	**1,383,059**	1,172,808

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018	31 December 2017
Equity investments		
Listed shares *(i)*	**3,980**	18,199
Mutual funds	**520,682**	81,246
Asset management products *(ii)*	**151,597**	–
Equity investments held by consolidated structured entities	**278,905**	323,280
Investments in trust schemes which invest in equity products	**106,185**	30,000
Investments in Trust Industry Protection Fund *(iii)*	**108,391**	–
Equity investments in unlisted entities *(iv)*	**162,915**	32,500
Total	**1,332,655**	485,225
Presented as:		
Non-current assets	**807,994**	N/A
Current assets	**524,661**	485,225
Financial assets at fair value through profit or loss, net	**1,332,655**	485,225

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(i) Listed equity shares at the fair value of RMB 2,376 thousand are restricted for sale until 1 August 2018.

(ii) 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.

(iii) 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 financial assets at fair value through profit or loss as of 30 June 2018.

(iv) 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.

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

25 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	30 June 2018	31 December 2017
Government bonds	**10,800**	951,400

26 OTHER CURRENT ASSETS

	30 June 2018	31 December 2017
Contribution to Trust Industry Protection Fund on behalf of trust schemes *(i)*	**448,157**	361,230
Settlement deposits with securities firms	**1,349**	3,482
Dividends receivable	**25,013**	–
Input VAT to be deducted	**302**	–
Others, net	**60,918**	22,865
Others, gross	**68,673**	25,994
Less: Impairment allowance	**N/A**	(3,129)
ECL Allowance	**(7,755)**	N/A
Total	**535,739**	387,577

(i) The amount represents the 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 24.

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

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:

	30 June 2018	31 December 2017
Number of shares authorized and issued *(i)*	**2,588,250**	2,588,250

	30 June 2018	31 December 2017
Share capital	**2,588,250**	2,588,250

(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 capital reserve as "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."

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

27 SHARE CAPITAL AND CAPITAL RESERVE (CONTINUED)

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 30 June 2018, the Group's capital reserve is shown as follows:

	30 June 2018	31 December 2017
Share premium	**2,181,790**	2,215,637

28 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Statutory surplus reserve *(i)*	**Statutory general reserve** *(ii)*
Balance at 1 January 2018	**688,876**	**718,772**
Appropriation to statutory surplus reserve	**–**	**–**
Appropriation to statutory general reserve	**–**	**–**
Balance at 30 June 2018	**688,876**	**718,772**
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

28 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE (CONTINUED)

(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.

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

29 OTHER RESERVES

	Pre-tax amount	**Tax charge**	**Net of tax**
Balance at 1 January 2018	**45,891**	**(16,442)**	**29,449**
Application of IFRS 9	**(53,242)**	**16,442**	**(36,800)**
Restated balance at 1 January 2018	**(7,351)**	**–**	**(7,351)**
Fair value changes in available-for-sale financial assets	**–**	**–**	**–**
Share of other comprehensive income of investments accounted for using the equity method	**3,508**	**–**	**3,508**
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	**–**	**–**	**–**
Balance at 30 June 2018	**(3,843)**	**–**	**(3,843)**

	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

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

30 DIVIDENDS

	Six months ended 30 June	
	2018	2017
Dividend declared during the period	**447,767**	254,212

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.

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

	30 June 2018	31 December 2017
Borrowings from China Trust Protection Fund Co., Ltd.	**1,178,000**	328,000

To further expand proprietary business, the Company has four borrowings from China Trust Protection Fund Co., Ltd..

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

33 OTHER CURRENT LIABILITIES

	30 June 2018	31 December 2017
Payable to National Social Security Fund *(i)*	**227,452**	227,452
Advance payment from borrowers *(ii)*	**133,838**	133,582
VAT and surtax payable for trust schemes *(iii)*	**92,349**	–
Deferred trustee's remuneration fee income	**39,372**	37,633
Other tax payable	**15,198**	44,494
Others	**32,367**	31,418
Total	**540,576**	474,579

(i) The amounts represents proceeds from disposal of the Company's shares attributable to National Social Security Funds upon IPO.

(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.

(iii) In accordance with the Notice on Value-Added Tax of Asset Management Products (Cai Shui (2017) No. 56) issued by the Ministry of Finance and the State Administration of Taxation, the Company as trustee is subject to VAT which is calculated at the rate of 3% of taxable investment income of trust schemes from 1 January 2018.

34 STRUCTURED ENTITIES

(a) Structured entities that are not consolidated

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 is entitled to investment return from the trust schemes in which the Group has made direct investment. The Company considers 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.

(i) Unconsolidated structured entities managed by the Company

As of 30 June 2018, the volume of unconsolidated trust schemes established and managed by the Company amounted to RMB216,447 million (31 December 2017: RMB256,326 million). The Company's maximum exposure to these unconsolidated structured entities is the trustee's remuneration receivables and the amounts of such receivables is RMB191,145 thousand at 30 June 2018 (31 December 2017: RMB314,999 thousand).

During the six months ended 30 June 2018, the Group did not provide financial or other support to these structured entities (the six months ended 30 June 2017: nil).

(ii) Unconsolidated structured entities invested by the Company

As of 30 June 2018, 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 and financial investments-amortized cost (At 31 December 2017, investments were classified as loans and receivables).

During the six months ended 30 June 2018, the Group did not provide financial or other support to these structured entities (the six months ended 30 June 2017: nil).

The table below sets out the carrying value and the Group's maximum exposure (including interest receivable) to these unconsolidated structured entities.

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

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 30 June 2018			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	**520,682**	**520,682**	**Note 1**
– Investments in trust schemes which invested in equity instruments	**106,185**	**106,185**	**459,005**
– Asset management products managed by third parties	**151,597**	**151,597**	**Note 1**
– Trust Industry Protection Fund managed by third parties	**108,391**	**108,391**	**Note 1**
Financial investments-amortized cost			
– Trust schemes established and managed by the Company	**133,794**	**133,794**	**1,190,000**
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

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.

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 30 June 2018, the number of consolidated trust schemes established and managed by the Company were 50 (31 December 2017: 45) and total volume of consolidated trust schemes amounted to RMB8,560,389 thousand (31 December 2017: RMB6,957,568 thousand).

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"). In the past, the Group had at its discretion used 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 resources. Whenever those troubled trusts met the criteria of consolidated structured entities, the Group then consolidated these troubled trusts. As at 30 June 2018, total assets of such troubled trusts amounted to RMB1,167,274 thousand (31 December 2017: RMB274,078 thousand), and an impairment allowance have been made in the amount of RMB479,311 thousand (31 December 2017: RMB184,398 thousand).

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

35 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitment

	30 June 2018	31 December 2017
Contracted but not yet incurred	**1,940**	1,545

These capital commitments mainly relate to purchase of intangible assets.

(b) Operating leasing commitment

The future minimum lease payments under irrevocable rental contracts are listed as follows:

	30 June 2018	31 December 2017
Within one year	**993**	594
Between one year and five years	**790**	417
Total	**1,783**	1,011

(c) Legal proceedings

The Group believes the legal proceedings that remains outstanding as at 30 June 2018 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 under trial by the Intermediate People's Court of 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 (31 December 2017: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 period ended 30 June 2018.

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

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 30 June 2018. Lucion Group is further controlled by Shandong State-owned Assets Supervision and Administration Commission. CNPC Assets Management Co., Ltd. ("CNPC AMC"), Shandong Gold Group Co., Ltd. ("Shandong Gold Group"), Weifang Investment Group Co., Ltd. ("Weifang Investment"), Jinan Energy Investment Co., Ltd. ("Jinan Energy Investment"), Jinan Financial Holding Group Co., Ltd. ("Jinan Financial Holding Group") and Qingdao Global Wealth Center Development and Construction Co., Ltd. ("Qingdao Global Wealth Center") held 33.54% of the Company's shares in total at 30 June 2018.

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 six months ended 30 June 2018, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent ("Lucion Group").

	30 June 2018	31 December 2017
Number of trust schemes controlled by the Group *(Note 34(b))*	**50**	45
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	**18**	26

Total entrusted assets of the trust schemes controlled by Lucion Group are as follows:

	30 June 2018	31 December 2017
Total entrusted assets of trust schemes controlled by Lucion Group	**2,509,223**	3,866,833

The Group's remuneration from trust schemes controlled by Lucion Group is as follows:

	Six months ended 30 June	
	2018	2017
Fee and commission income	**5,044**	5,435

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties as trustors of trust schemes (including those consolidated structured entities)

During the six months ended 30 June 2018, Lucion Group and its 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 condensed consolidated interim statements of financial position (Note 31):

	30 June 2018	31 December 2017
Number of trust schemes where the related parties act as trustors	**10**	10
Interests of related parties in these consolidated trust schemes	**199,299**	135,795

Investment return/(loss) have been accounted for as interest expense (Note 7) and net changes in fair value on financial assets at fair value through profit or loss in the Group's condensed consolidated interim statements of comprehensive income:

	Six months ended 30 June	
	2018	2017
Interest expense	**(40,606)**	(895)
Net changes in fair value on financial assets at fair value through profit or loss	**(291)**	(9)

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

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

	30 June 2018	31 December 2017
Number of unconsolidated trust schemes where related parties acts as trustors	**34**	48
Assets entrusted by related parties	**3,628,347**	4,482,205
Total entrusted assets of these unconsolidated trust schemes	**9,251,643**	8,272,676

Trustee's remuneration received or receivable from such trust schemes has been accounted for as fee and commission income in the Group's condensed consolidated interim statements of comprehensive income, and is illustrated below:

	Six months ended 30 June	
	2018	2017
Fee and commission income	**40,754**	72,854

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related parties financed by trust schemes

(i) Related parties financed by unconsolidated trust schemes of the Group

	30 June 2018	31 December 2017
Number of unconsolidated trust schemes which provide financing to related parties	**15**	26
Amount financed	**8,427,624**	13,067,794
Total entrusted assets of these unconsolidated trust schemes	**8,427,624**	13,067,794

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's condensed consolidated interim statements of comprehensive income, and are illustrated below:

	Six months ended 30 June	
	2018	2017
Fee and commission income	**8,209**	8,949

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

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 to key management personnel is shown below:

	Six months ended 30 June	
	2018	2017
Salaries and allowances	**3,684**	3,052
Pension	**173**	156
Other social security obligations	**332**	383
Total	**4,189**	3,591

The compensation payable to key management personnel is shown below:

	30 June 2018	31 December 2017
Discretionary bonuses payable	**5,996**	15,129

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Related parties transactions with key management personnel and their immediate family members (Continued)

(ii) Key management personnel and their immediate family members' personal investments in trust schemes managed by the Company

	30 June 2018	31 December 2017
Key management's personal investments in trust schemes	**13,204**	15,868
Total entrusted assets of these trust schemes	**7,311,816**	8,752,167

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's condensed consolidated interim financial statements, and are illustrated below:

	Six months ended 30 June	
	2018	2017
Fee and commission income	**3,479**	23,764

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions

(i) Significant transactions with related parties

During the six months ended 30 June 2018, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2018	2017
Loans sold to Shandong AMC by the Group *(i)*	–	600,000
Loans sold to Shandong AMC by the Company as the trustee of unconsolidated structured entities *(ii)*	–	568,506
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	**1,207**	1,163
Advertising costs paid to Shandong Lu Xin Film Co., Ltd.	–	128
Properties management expenses paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	**4,248**	3,916
Restaurant management fee paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	**34**	204
System maintenance expenses paid to Luxin Technology Co., Ltd.	**2,774**	2,940
Equipment and software costs paid to Luxin Technology Co., Ltd.	–	598
Rental income paid by Shandong Luxin Hengsheng Property Management Co., Ltd.	**69**	115

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

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions (Continued)

(i) Significant transactions with related parties (Continued)

(i) On 21 March, 2017, the Company transferred a claim with carrying amount of RMB600,000 thousand to Shandong AMC at transfer price of RMB600,000 thousand. Shandong AMC subsequently entrusted the above-mentioned loan asset to the Company.

(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.

	Six months ended 30 June	
	2018	2017
Amount due from related parties		
– Due from Luxin Financial	–	100,164
– Due from Lucion Group	–	9,530
Total	–	109,694

(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.

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

37 SEGMENT ANALYSIS

(a) Operating segments

	Six months ended 30 June 2018			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	442,050	–	442,050
Interest income	351,413	327	–	351,740
Net changes in fair value on financial assets at fair value through profit or loss	9,051	–	–	9,051
Investment income	(18,024)	–	–	(18,024)
Net gains on disposal of associates held by consolidated structured entities	160,851	–	–	160,851
Other operating income	348	5,013	–	5,361
Total operating income	503,639	447,390	–	951,029
Interest expenses	(43,778)	–	–	(43,778)
Staff costs (including directors and supervisors' emoluments)	(3,595)	(74,007)	–	(77,602)
Operating lease payments	(365)	(4,599)	–	(4,964)
Depreciation and amortisation	(303)	(3,812)	–	(4,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(26,751)	–	–	(26,751)
Tax and surcharges	(639)	(4,478)	–	(5,117)
Other operating expenses	(1,580)	(31,629)	–	(33,209)
Auditor's remuneration	(896)	–	–	(896)
Loan impairment charges and other credit risk provision	(277,272)	–	–	(277,272)
Impairment losses on other assets	(15,439)	–	–	(15,439)
Total operating expenses	(370,618)	(118,525)	–	(489,143)
Share of profit from investments accounted for using the equity method	83,814	–	–	83,814
Operating profit before income tax	216,835	328,865	–	545,700

	30 June 2018			
	Proprietary business	Trust business	Unallocated	Total
Segment assets	12,288,552	1,227,848	94,322	13,610,722
Segment liabilities	4,496,040	39,372	32,367	4,567,779

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

37 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	Six months ended 30 June 2017			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	614,701	–	614,701
Interest income	224,914	216	–	225,130
Net changes in fair value on financial assets at fair value through profit or loss	10,341	–	–	10,341
Investment income	1,488	–	–	1,488
Other operating income	549	961	–	1,510
Total operating income	237,292	615,878	–	853,170
Interest expenses	(52,803)	–	–	(52,803)
Staff costs (including directors and supervisors' emoluments)	(1,663)	(80,239)	–	(81,902)
Operating lease payments	(145)	(4,426)	–	(4,571)
Depreciation and amortisation	(143)	(4,382)	–	(4,525)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(1,401)	–	–	(1,401)
Tax and surcharges	–	(5,513)	–	(5,513)
Auditor's remuneration	(1,175)	–	–	(1,175)
Other operating expenses	(465)	(22,426)	–	(22,891)
Loan impairment charges and other credit risk provision	(76,285)	–	–	(76,285)
Impairment losses on other assets	(19,458)	–	–	(19,458)
Total operating expenses	(153,538)	(116,986)	–	(270,524)
Share of profit from investments accounted for using the equity method	75,215	–	–	75,215
Operating profit before income tax	158,969	498,892	–	657,861

	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

38 SUBSEQUENT EVENTS

Pursuant to a resolution of the board meeting on 31 August 2018, the Board of Directors proposed to convert the Company's capital reserve into ordinary shares in the proportion of 8 shares for every 10 shares held, which would increase the total number of share capital by 2,070,600,000 shares. The number of shares after conversion will be 4,658,850,000 shares. The resolution is subject to final approval by shareholders in the General meeting.

Except the event mentioned above, the Group has no material events that requires additional disclosure after 30 June 2018.

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.

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 fulfil 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 condensed consolidated interim 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. 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"). In the past, the Group had at its discretion used 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 resources.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.1 Credit risk measurement (Continued)

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.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures Expected Credit Loss (ECL) under IFRS 9 using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). Refer to note 39.1.2 for more details.

39.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 39.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 39.1.2.2 for a description of how the Group defines credit-impaired and default.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Expected credit loss measurement (Continued)

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 39.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 39.1.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to note 39.1.2.5).

The impairment requirement under IFRS 9 (other than purchased or originated credt-impaired assets:

- Stage 1 (initial recognition): 12-month expected credit losses;

- Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses;

- Stage 3 (credit- impaired assets): lifetime expected credit losses.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

39.1.2.1 Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

<u>Quantitative criteria</u>

The borrower is more than 30 days past due on its contractual payments.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Expected credit loss measurement (Continued)

39.1.2.1 Significant increase in credit risk (SICR) (Continued)

Qualitative criteria

If the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

In relation to loan and treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

The Group has not used the low credit risk exemption for any financial instruments in the period ended 30 June 2018.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Expected credit loss measurement (Continued)

39.1.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Expected credit loss measurement (Continued)

39.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.2 Expected credit loss measurement (Continued)

39.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. Refer to Note 39.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

39.1.2.4 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit.

The Group selects a series of macroeconomic indicators (including business climate index and real estate climate index, etc) based on industry best practices and expert judgments, and then establishes a statistical relationship between the actual default probability and macroeconomic factors for model exposures. The result of macroeconomic indicators forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.3 Credit risk exposure

39.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	30 June 2018					
	Non-default	Default	Gross carrying amount	Loss allowance	Carrying amount	31 December 2017
Cash and bank balance (Stage 1)	1,383,059	–	1,383,059	–	1,383,059	1,172,808
Financial assets purchased under resale agreements (Stage 1)	10,800	–	10,800	–	10,800	951,400
Loans to customers						6,182,432
Stage 1	6,276,800	–	6,276,800	(155,353)	6,121,447	
Stage 2	286,000	–	286,000	(16,226)	269,774	
Stage 3	–	1,689,390	1,689,390	(506,551)	1,182,839	
Financial investments-amortized cost						N/A
Stage 1	75,200	–	75,200	(2,087)	73,113	
Stage 2	26,600	–	26,600	(1,786)	24,814	
Stage 3	–	39,888	39,888	(4,013)	35,875	
Investments classified as loans and receivables	N/A	N/A	N/A	N/A	N/A	243,990
Other financial assets-amortized cost						1,109,527
Stage 1	1,084,580	–	1,084,580	(8,276)	1,076,304	
Stage 2	803	–	803	(73)	730	
Stage 3	–	128,458	128,458	(70,278)	58,180	
Total	9,143,842	1,857,736	11,001,578	(764,643)	10,236,935	9,660,157

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (Continued)

39.1.3 Credit risk exposure (Continued)

39.1.3.2 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	30 June 2018	31 December 2017
FVPL	**1,332,655**	485,225

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.

39.2.2 Price risk

Certain financial assets such as financial assets at FVPL 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 measured at fair value on the Group's profit before tax and equity.

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (Continued)

39.2.2 Price risk (Continued)

Profit before income tax	**30 June 2018**	31 December 2017
+1 percent	**13,327**	4,852
-1 percent	**(13,327)**	(4,852)

Equity impact before income tax	**30 June 2018**	31 December 2017
+1 percent	**13,327**	11,214
-1 percent	**(13,327)**	(11,214)

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 shareholders' equity. The Group's interest rate risk management is mainly focused on cash flow interest rate risk management.

As at 30 June 2018, the main interest bearing assets held by the Group include cash and cash equivalents and financial assets held under reverse repurchase agreements which accounts for 10.19% of total assets of the Group (31 December 2017: 16.46%). The Company's cash flow interest rate risk exposures from holding these assets are not significant.

As at 30 June 2018, the Company's main interest bearing liability includes a RMB1,178 million short-term borrowing from China Trust Protection Fund Co., Ltd., which amounted to 25.40% of total liabilities of the Group (31 December 2017: RMB328 million, amounted to 8.73% of total liabilities of the Group).

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (Continued)

39.2.3 Interest rate risk (Continued)

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 Company 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. There are still some exposure of foreign exchange risk due to the proceeds from issuance of H shares which were denominated in HKD. As at 30 June 2018, the Group has performed analysis and concluded that the foreign exchange risk is not material.

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 30 June 2018, The Group has a short-term borrowing from China Trust Protection Fund Co., Ltd. amounting to RMB1,178 million as disclosed in Note 32 (31 December 2017: RMB328 million).

The majority of the Group's financial liabilities on the condensed consolidated interim 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 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 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 resale agreements, loans to customers, financial investments-amortized cost, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 30 June 2018, their fair value approximate carrying amounts.

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

30 June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
– Listed shares	**1,604**	**2,376**	**–**	**3,980**
– Mutual funds	**520,682**	**–**	**–**	**520,682**
– Asset management products	**–**	**–**	**151,597**	**151,597**
– Equity investment in an unlisted company	**–**	**–**	**162,915**	**162,915**
– Investment in trust schemes which invest in equity products	**–**	**–**	**106,185**	**106,185**
– Financial assets held by certain consolidated structured entities	**–**	**–**	**278,905**	**278,905**
– Trust Industry Protection Fund	**–**	**–**	**108,391**	**108,391**
Total	**522,286**	**2,376**	**807,993**	**1,332,655**

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

During the six months ended 30 June 2018 and 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 mutual funds and listed equity investment hold by consolidated structured entities.

(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.

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

(iii) Financial instruments in Level 3

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
1 January 2018	**132,500**	**353,957**	**486,457**
Application of IFRS 9	**608,927**	**(353,957)**	**254,970**
Purchase	**80,660**	**–**	**80,660**
Sell	**(30,902)**	**–**	**(30,902)**
Transfer out	**–**	**–**	**–**
Gains and losses recognised in the investment income of profit or loss	**16,808**	**–**	**16,808**
30 June 2018	**807,993**	**–**	**807,993**
Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the period (included in gains/(losses) disclosed above)	**45,329**	**–**	**45,329**
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 year (included in gains/(losses) disclosed above)	–	28,050	28,050

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

39 FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 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 30 June 2018	Valuation technique (s)	Unobservable input	Range
Financial assets at fair value through profit or loss				
– Equity investments		Market comparable	Discount for lack of	
	114,234	companies	marketability *(i)*	68.00%–76.03%
			P/E multiple *(ii)*	16.51–25.75
	48,680	Net asset method	N/A	N/A

Description	Fair value at 31 December 2017	Valuation technique(s)	Unobservable input	Range
Financial assets at fair value through profit or loss				
– Equity investments		Market comparable	Discount for lack of	
	113,161	companies	marketability *(i)*	45.57%–59.17%
			P/E multiple *(ii)*	18.45–25.75

(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 30 June 2018 the remaining investments categorized in Level 3 with fair value of RMB645,079 thousand (31 December 2017: RMB373,296 thousand) were valued based on unobservable inputs such as net assets value of portfolio investments.

DEFINITIONS

In this interim 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
"CBRC" or "China Banking and Insurance Regulatory Commission"	the China Banking Regulatory Commission (中國銀行業監督管理委員會)(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 interim report and for geographical reference only and except where the context requires, references in this interim 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)
"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
"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
"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
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"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
"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
"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 interim 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
"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
"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 China Banking and Insurance Regulatory Commission while the risk deductions are determined by the China Banking and Insurance Regulatory Commission
"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
"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
"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.