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

ANNUAL REPORT

CONTENT

IMPORTANT NOTICE

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

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

On 22 March 2019, the second session Board of the Company held the seventh meeting, during which the 2018 annual report (2018 annual results announcement) of the Company was considered and has been approved. There were seven Directors eligible to attend the meeting, seven of whom attended in person.

The 2018 financial report, which has been prepared by the Company according to the Chinese Accounting Standards and IFRS, was audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) and PricewaterhouseCoopers in accordance with the Chinese and International standards on auditing, respectively, and they have issued the standard audit reports without qualified opinion.

The Board proposed a distribution of cash dividend of RMB0.081 per share (tax inclusive) for 2018 to its Shareholders. The profit distribution plan will be proposed at the 2018 annual general meeting for consideration.

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

The Board of
Shandong International Trust Co., Ltd.

22 March 2019

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

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

COMPANY PROFILE

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

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, growing comprehensive strength and increasing profitability with a good social reputation and brand influence.

In respect of long-term equity investments, the Company puts emphasis on its financial industry policy to promote an integrated financial service platform. The Company has invested in several financial institutions, such as First-Trust Fund, Fullgoal Fund, Minsheng Securities, Taishan P&C 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 to 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", "Excellent Risk Control Award", "Trust Company with the Greatest Regional Influence in China", "Best Wealth Management Trust Company", "Best IPO Award of the Year of 2017" and the "Most Valuable Financial Stock in the 2018 Golden Hong Kong Stocks Awards". 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 six consecutive years in assessment of provincial corporate financial performance conducted by the Shandong Provincial Bureau of Finance.

BASIC CORPORATE INFORMATION

Legal name (in Chinese)	山東省國際信託股份有限公司
Abbreviation in Chinese	山東國信
Legal name (in English)	Shandong International Trust Co., Ltd.
Abbreviation in English	SITC
Legal representative	Wan Zhong (萬眾)
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

BASIC CORPORATE INFORMATION

Principal place of business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Senior management responsible for information disclosure	He Chuangye (賀創業)
Contact person for information disclosure matter	Yuan Fang (袁方)
Telephone number	(0531) 8656 6593
Facsimile number	(0531) 8656 6593
E-mail address	ir1697@luxin.cn
Media for information disclosure	Shanghai Securities News
Website of Hong Kong Stock Exchange for publishing the annual report for H Shares	www.hkexnews.hk
Place for maintaining annual report	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	SDITC
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

BASIC CORPORATE INFORMATION

Audit Committee	Ding Huiping (丁慧平) *(Chairperson)* Jin Tongshui (金同水) Meng Rujing (孟茹靜)
Business Decision Committee	Wan Zhong (萬眾) *(Chairperson)* Yue Zengguang(岳增光) Jin Tongshui (金同水)
Human Resources and Nomination Committee	Wan Zhong (萬眾) *(Chairperson)* Ding Huiping (丁慧平) Meng Rujing (孟茹靜)
Remuneration Committee	Meng Rujing (孟茹靜) *(Chairperson)* Jin Tongshui (金同水) Yen Huai-chiang (顏懷江)
Strategies and Risk Management Committee	Wan Zhong (萬眾) *(Chairperson)* Xiao Hua (肖華) Yue Zengguang(岳增光)
Trust Committee	Yen Huai-chiang (顏懷江) *(Chairperson)* Ding Huiping (丁慧平) Yue Zengguang(岳增光)
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

BASIC CORPORATE INFORMATION

Legal Advisor (as to Hong Kong laws)	Fangda Partners
Place of business	26th Floor, One Exchange Square 8 Connaught Place Central, Hong Kong
International Auditor	PricewaterhouseCoopers
Place of business	Certified Public Accountants 22/F, Prince's Building Central, Hong Kong
PRC Auditor	PricewaterhouseCoopers Zhong Tian LLP
Place of business	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	Haitong International Capital Limited
Place of business	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Principal Bank	China Citic Bank Quancheng Road Sub-branch No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

MAJOR FINANCIAL INDICATORS

FINANCIAL DATA

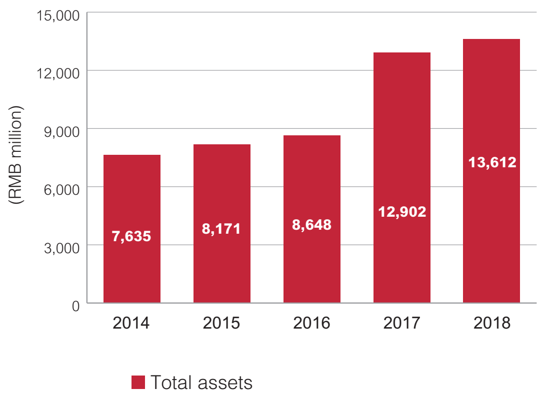
	As at and for the year ended 31 December				
	2018	2017	2016	2015	2014
Data at the end of the reporting period *(RMB in millions)*					
Total assets	**13,612**	12,902	8,648	8,171	7,635
Fee and commission income	**891**	1,130	828	1,052	1,285
Interest income	**648**	491	455	461	384
Total operating income	**1,695**	1,648	1,327	1,786	1,766
Change in net asset attributable to other beneficiaries of consolidated structured entities	**(20)**	2	1	–	2
Total operating expenses	**700**	696	389	615	575
Operating profit before income tax	**1,127**	1,119	1,077	1,346	1,286
Segment assets					
Proprietary business	**12,372**	11,655	7,557	6,711	6,332
Trust business	**1,214**	1,202	912	1,206	1,083
Unallocated assets(1)	**26**	45	179	254	220
Segment liabilities					
Proprietary business	**3,989**	3,715	2,220	1,529	1,800
Trust business	**67**	38	85	21	42
Unallocated liabilities(1)	**15**	2	2	623	396

Note:

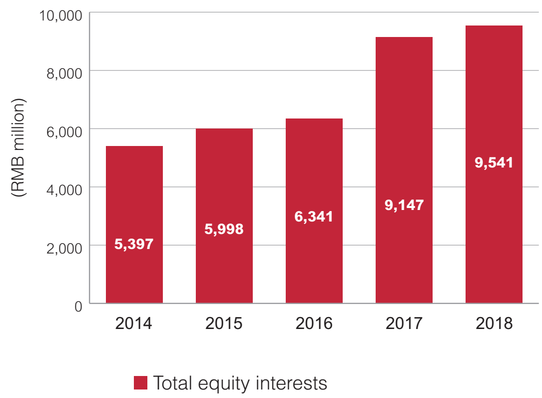
(1) It refers to the assets and liabilities shared by the proprietary business and trust business.

FINANCIAL INDICATORS

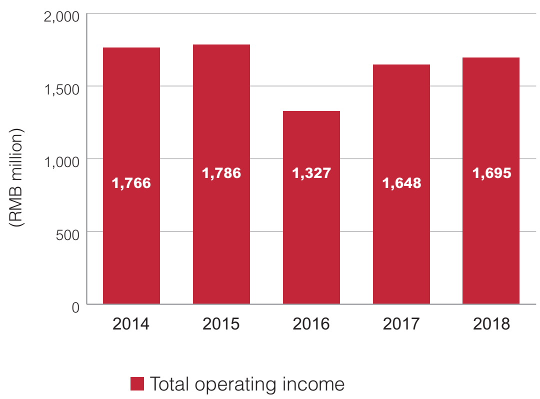
Total assets



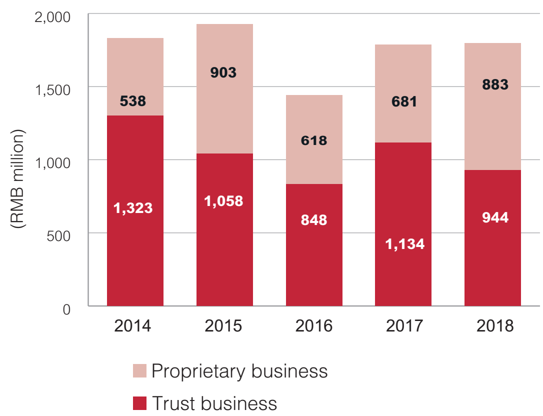
Total equity interests



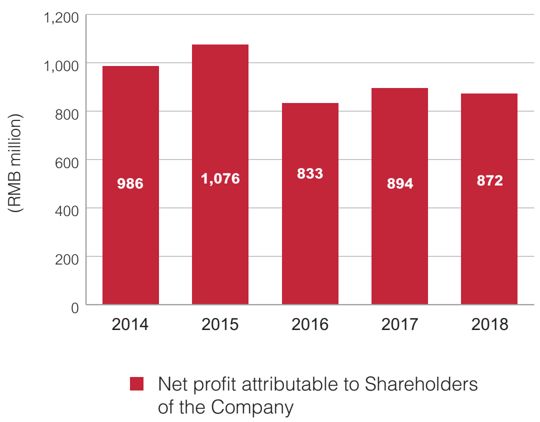
Total operating income



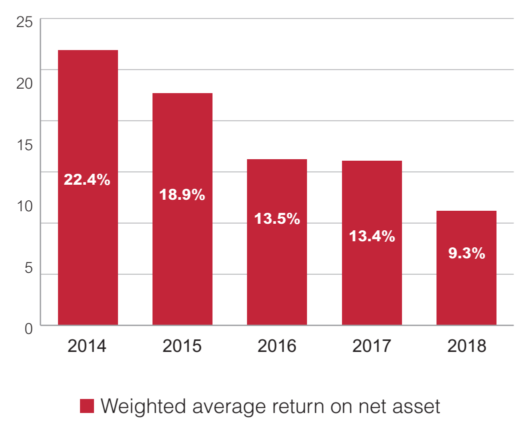
Income in business segment



Net profit attributable to Shareholders of the Company



Weighted average return on net asset



2018 MAJOR EVENTS

January

SITC was awarded with China Financial Market Award – "Best IPO Award of the Year" in 2017.

April

SITC obtained the qualification of engaging in equity investment business with proprietary assets.

June

The Wealth Succession Property Trust in the "Heritage Series" of SITC consecutively won the "Best Family Trust Scheme of the Year" recognised by Securities Times.

March

SITC convened the 2017 results presentation in Hong Kong.

May

China Trustee Association released the trust industry's rating results for 2017 that SITC attained the highest Class A rating in the industry for three consecutive years.

SITC participated in the establishment of "Shandong Luxin New and Old Kinetic Energy Conversion Venture Capital Parent Fund" with the total amount of RMB1 billion.

September

"Binbin Charitable Trust", the first scholarship of SITC, was successfully granted.

SITC obtained the certificate for the highest rating of Class AAA in the performance assessment of financial institutions in Shandong for six consecutive years.

The Dream with One Heart Charitable Trust of SITC was awarded with honor the "Shandong Charitable Award – the Most Influential Charity Project" issued by the Department of Civil Affairs of Shandong Province.

December

SITC was consecutively elected as a member of the standing committee of China Trustee Association.

SITC completed the official election of the second session of the Board and the Board of Supervisors.

SITC obtained the "2017 Integrity Trust – Best Family Trust Product Award" issued by Shanghai Securities News.

July

SITC officially launched its family trust brand known as "De Shan Qi Jia".

SITC introduced the first inclusive financial consumer trust project.

November

CHAIRPERSON'S STATEMENT

Wan Zhong
Chairperson of the Board

CHAIRPERSON'S STATEMENT

The year of 2018 was the fortieth anniversary of reform and opening up in the PRC and the first year after the listing of H Shares of the Company, during which, the Company saw profound changes in both external and internal environments. Facing the severe and complicated environment characterised by macroeconomic slowdown, de-leveraging in financial regulation and new industry pattern shaped by new asset management rules, the Company set the tone of "seeking progress while maintaining stability", held firmly to the guideline "product specialisation, service integration, and business standardisation" and fulfilled all works in relation to "serving the real economy, returning to the original commitment, optimising structure, controlling risk, promoting reform and strengthening Party building". Therefore, the Company recorded stable operating performance, significantly improved development quality and management effectiveness, comprehensively enhanced risk control, and greatly consolidated capital strength. The corporate governance system experienced further optimisation, with governance level and information disclosure mechanism both improved. The integration between Party building and corporate governance was further reinforced. Over the last year, the Company received guidance from regulatory authorities and strong support from Shareholders, clients and partners. Hereby, on behalf of the Company, I would like to express my heartfelt gratitude to the friends from all walks of life who have long cared and supported the development of SITC.

Over the last year, the Party Committee, the Board and the management made advance preparation and accurate judgements, united as one and stayed calm to face challenges arising from the complicated development environment. Guided by the high-quality development strategy, we made prudential judgement about market trends, developed new mode for finance and industry integration, accelerated the conversion of new and old growth drivers and therefore improved the capability of serving the real economy. While promoting transformation and innovation and accelerating the returning to original commitment, we made great achievement in the investment-loan linkage business, launched innovative businesses including consumption trust and culture trust, announced the family trust brand "De Shan Qi Jia", steadily advanced the construction of smart trust and acquired the qualification to conduct equity investment business with proprietary assets. We reinforced the internal growth engine by deepening reform, optimising system and mechanism and improving management efficiency. Through the promotion of "general operation management", we boosted the front-end productivity. We optimised organisation structure, established head office of regional business and expanded business teams to cover key regions across the country to enhance business capability. With the implementation of full marketing strategy and the establishment of regional marketing network, we greatly improved the independent marketing capability. By strengthening risk control and disposing risky projects through multiple channels, we maintained the non-performing trust rate lower than the industry average. We advanced comprehensive human resources system reform, so as to encourage our staff to innovate and to build a favourable development environment for talents.

In 2019, trust companies will be subject to a number of challenges and great opportunities in the context of greater economic downturn pressure, and will accelerate conversion of new and old growth drivers, stress on both stricter regulation and risk control, and change asset management market. Mr. Xi Jinping stated that the financial sector should serve the real economy and satisfy economic and social development requirements and demands of the public. We believe that as China's trust industry continues to develop and the public know more about, recognise and apply more trust services, trust companies are bound to meet great development potential. We will put the new development philosophy into practice, firmly take the returning to original commitment as the core, serving the real economy as the fundamental, transformation and innovation as the growth engine and helping people to realise a better life as the goal, enhance risk control, adjust the development pace and improve development quality and benefit to follow trends in the new era.

Amid the fierce competition, those who strive for the best are the first. We will remain true to the original aspiration of financial sector, keep the mission of trust in mind, unite as one and make concerted efforts to realise greater progress in transformation and innovation.

22 March 2019

Yue Zengguang
General Manager

GENERAL MANAGER'S STATEMENT

The Company set 2018 as the "leap-over year of finance and industry integration". During the year, the Company seized the opportunities arising from the conversion of new and old growth drivers, achieved progress and quality improvement while maintaining stability, developed new mode for finance and industry integration and applied resources from many ends, thus better serving the real economy and realising a steady and sound development after the listing.

As of the end of 2018, consolidated assets of the Company totaled RMB13.612 billion, with consolidated liabilities of RMB4.071 billion, consolidated owner's equity of RMB9.541 billion, consolidated profit of the year of RMB1.127 billion and net profit attributable to Shareholders of the Company was RMB872 million. As of the end of 2018, the trust AUM of the Company was RMB231.922 billion, among which, asset under active management amounted to RMB89.658 billion, accounting for 38.7% and representing an increase of 9.1 percentage points as compared with the beginning of the year.

The Company would not make such achievements without the reliable guidance of regulatory authorities, the scientific decisions of the Party Committee and the Board of SITC, the devotion and contribution of the staff, the trust and care of investors and partners, and the recognition and support of Shareholders. Hereby, on behalf of the senior management of the Company, I would like to express my heartfelt gratitude to all of you.

In 2018, facing the macroeconomic slowdown and de-leveraging in financial regulation, the Company set regulator and industry rating indicators as standard, improved corporate governance, enhanced capital strength and active management capability and promoted the high-quality development of businesses, thereby improving the position and influence in the industry. The "stability" was maintained, the "progress" was greater, and the "new" engines were cultivated. Property active management business built its brand; family trust and charitable trust returned to their fundamental businesses and made new record; consumption trust for promoting inclusive finance was launched on the market and recorded satisfactory performance; the construction of smart trust backed by "finance + technology" strategy developed steadily. Through such efforts, customer protection and company brand image was improved further, and transformation and innovation saw remarkable progress.

The year of 2019 marks the 70th anniversary of the People's Republic of China and is also a critical year for the Company to advance transformation and innovation to a new high. The management of the Company will work together with all staff to steadfastly fulfil all strategic deployment of the Party Committee and the Board, take a market-oriented approach, make serving the real economy as the core, and capital trust, service trust and family trust as the direction, and enhance compliance and trustee culture construction. Equal weight will be given to traditional business and innovative business, which are regarded as "dual engine". While further cultivating the traditional strength, the Company will actively develop new business, explore new mode to build featured trust business, so as to facilitate the returning to original commitment and improve the capability of serving the real economy, strengthen the comprehensive financial and wealth management capability, promote the high-quality development and bring greater benefits to Shareholders and the society.

Gone is winter, coming is spring and blooming. Looking into the upcoming year, I hope we will unite as one, carry on past tradition and forge ahead to make greater achievement.

22 March 2019

ENVIRONMENT OVERVIEW

In 2018, the overall global economy continued to grow, but with a weaker growth momentum and a slower synchronised growth as a whole. Subject to global trade friction and changes in financial environment, the financial market saw more fluctuations and greater downturn pressure. The economy of the PRC maintained a steady operation as a whole, and economic structure kept optimising with continuous improvement in quality and efficiency. Service industry maintained a steady and rapid growth, and consumption made greater contribution to economic growth; international balance of payment remained basically balanced, and prices stayed at a stable level. GDP amounted to RMB90.03 trillion for the year, representing a year-on-year increase of 6.6%, and the national economy continued to operate within a reasonable range. Against the backdrop of prosperous development of emerging industries, accelerated transformation and upgrade of traditional industries, and rapid growth in new kinetic energies in economic development, new and old kinetic energy conversion had been completely changing production methods and lifestyle, which formed new edges for the PRC's development.

The PRC financial industry actively put new development concept into practice and strived to improve the economic capability of financial service entities by giving priority to serving supply-side structural reform, so as to properly prevent and address financial risks and promote the transformation of the industry towards high quality development. Trust industry witnessed further improvement in its capability of serving the real economy and participating in social and civil affairs by actively fulfilling national development strategies, and following policy orientation, strengthening risk control, improving the quality and efficiency of development, striving for transformation and innovation and accelerating the pace of revisiting the fundamentals of the industry. As of the end of the fourth quarter of 2018, balance of trust assets managed by the PRC trust industry amounted to RMB22.7 trillion, representing a decrease of RMB3.54 trillion as compared with that at the beginning of the year. Assets under management decreased at a moderate pace with minimal slowdown in development efficiency and increase in risk exposure, while a stable downturn was recorded in the overall market, indicating the necessity to accelerate transformation in the long run.

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 2018, 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 six consecutive years in the comprehensive assessment of local financial institutions in Shandong.

In 2018, the Company held firm to the work style that "seeks progress amid stability and pursues improvement in development", fostered the two engines of transformation and innovation, and took a series of measures to serve the real economy, to accelerate the pace of revisiting the fundamentals of trust industry and to boost high-quality development. Firstly, the Company focused on improving active management capability and optimising business structure and downsized the pipeline business in an orderly fashion, thereby enhancing the asset acquisition capability, product design ability and operation management capability. To improve service quality and efficiency, the Company focused on serving the real economy and new and old kinetic energy conversion, and concentrated resources on business strength and explored new pattern for integration of financial and industry sectors, it also realised greater synergy between the trust business and the proprietary business after being qualified to conduct equity investment business with proprietary assets. Secondly, the Company stepped up the construction of smart trust system backed by the "information + technology" strategy for targeted measures to solve tough problems about capital, asset and operation, and actively built a service ecosystem for high-net-worth clients. Thirdly, the Company further optimised business layout and established regional business teams in key regions and central cities in the PRC to optimise business network layout. At the same time, the Company further developed sales channels, set up regional wealth management centres, expanded business scope of commissioned banks, and reaped practical results in full marketing. Fourthly, the Company optimised the management and improved the system to enhance management effectiveness. To consolidate back-end support and boost front-end productivity, it further optimised the organisation structure, streamlined business procedures, promoted the general operation management and practiced "separation of investment and management".

In 2018, facing severe challenges including economic slowdown, deleveraging in the financial industry and intense competition for asset management market, the Company adhered to the high-quality development strategy, conducted in-depth analysis of regulatory policies and market trends and adopted effective measures to withstand complicated changes from the external environment, therefore achieving a steady business growth with an operating income of RMB1,694.5 million, representing a year-on-year increase of 2.8%. Meanwhile, the net profit attributable to Shareholders of the Company was RMB872.2 million, representing a year on-year decrease of 2.5%.

The Company's business segments are (i) trust business and (ii) proprietary business. Trust business is the Company's principal business. As the trustee, the Company accepts entrustment of funds and/or property from its trustor clients and manages such entrusted funds and/or 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:

	Year ended 31 December			
	2018		2017	
	Amount	**%**	Amount	%
	(RMB in thousands, except for %)			
Trust business				
Operating income	**943,651**	**51.66%**	1,134,147	62.47%
Segment income	**943,651**	**51.66%**	1,134,147	62.47%
Proprietary business				
Operating income	**750,855**	**41.10%**	513,750	28.30%
Share of profit of investments accounted for using the equity method	**132,197**	**7.24%**	167,675	9.23%
Segment income	**883,052**	**48.34%**	681,425	37.53%
Total	**1,826,703**	**100.00%**	1,815,572	100.00%

In 2018, the income from the trust business and proprietary business of the Company accounted for 51.7% and 48.3% of the total revenue of the Company, respectively.

Trust Business

In 2018, in proactive response to the changes in the economic trend and regulatory policies in the PRC, the Company continued to optimise trust business structure and improve active management capability, and conducted proactive transformation of development mode. Firstly, the Company made further use of traditional business strength to consolidate development foundation. It improved the active management capability, adjusted traditional business mode and strengthened the comprehensive service, bargaining and resource planning capabilities on the industry chain of traditional business by employing equity investment, "equity + debts", merger and acquisition funds and other means. The active management business of property built up its brands and characteristics, and the investment-loan linkage business made significant progress. Secondly, the Company stepped up efforts to expand the business revisiting the fundamentals of trust industry to improve brand influence. The family trust business maintained its advantages and consolidated its leading industry position. With the launch of "De Shan Qi Jia" family trust brand, the Company enjoyed an improved market influence. The charitable trust business was on the track to better development and nurtured a business mode that coordinated with family trust. Thirdly, the Company offered strong support to the launch of innovative business to expedite transformation and innovation. It focused on investment in new fields, allocation to major asset categories and realisation of innovation and practical results with new partners. Projects getting involved in consumption financing, culture, sports and films through trust schemes were launched successfully and became new directions for transformation. Fourthly, the Company established business teams covering Shanghai, Beijing, Chongqing, Nanjing and Zhengzhou (all of which were five of its major business cities) to further develop business region and enhance national business capability. Fifthly, the Company established marketing branches to expand the business scope of commissioned banks, and set the full marketing strategy to further develop marketing channels. The two marketing branches in Yantai and Hefei expanded the coverage over high-net-worth clients; the deepening strategic cooperation with existing commissioned banks expanded the business scope of these commissioned banks and offered a guarantee for issue of trust product; the promotion of full marketing strategy produced practical benefits and helped improve the independent marketing capability.

In 2018, backed by 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. 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 2018, both the trust AUM and income from trust business of the Company recorded a 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 the Company decreased from RMB263,408 million as at 31 December 2017 to RMB231,922 million as at 31 December 2018, and the total number of trusts were 955 and 1,078, respectively, as at the respective dates. As at 31 December 2018, the AUM of actively managed trust was RMB89,658 million, accounting for 38.7% of the total trust AUM (indicating a year-on-year growth of 9.1 percentage points). During the Reporting Period, revenue from the actively managed trust amounted to RMB627 million, accounting for 70.4% of the fee and commission income of the total income from trust business (indicating a year-on-year increase of 1.0 percentage point).

Classification of trusts

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

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

(1) **Financing trusts:** Under this type of trusts, in addition to providing trust administration services for the capital end, the Company is actively involved in the ongoing management and disposal of the trust assets in the asset end, and focus on satisfying the financing needs of its counterparties. The Company's financing trusts provide flexible financing solutions for real estate development projects, infrastructure projects and other various types of enterprises.

(2) **Investment trusts:** The Company is responsible for or participate in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of the trust assets, and focused on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of equity investment trusts, securities investment trusts, indirect investment trusts, family trust and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients.

(3) **Administrative management trusts:** In an administrative management trust, the trustors have the discretion on the management, use and disposal of the trust assets. Trustors are 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 or invest in 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 31 December			
	2018		2017	
	Number	**AUM**	Number	AUM
	(AUM: RMB in millions)			
Financing trusts	**136**	**42,227**	146	48,314
Investment trusts	**531**	**47,431**	296	29,645
Administrative management trusts	**411**	**142,264**	513	185,449
Total	**1,078**	**231,922**	955	263,408

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

	Year ended 31 December			
	2018		2017	
	Revenue	**%**	Revenue	%
	(Revenue: RMB in millions)			
Financing trusts	**464**	**52.08**	562	49.74
Investment trusts	**163**	**18.29**	222	19.64
Administrative management trusts	**264**	**29.63**	346	30.62
Total	**891**	**100.00**	1,130	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, infrastructure trust, and industrial and commercial enterprises trusts.

(1) **Real Estate Trusts:** The Company's real estate trusts focus on arranging debt financing and 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 investment. 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) **Infrastructure Trusts:** The infrastructure trusts mainly focus on arranging debt financing for infrastructure development projects located in the PRC that are undertaken by companies legally contributed and under de facto control by the local government.

(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 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 31 December 2017 and 31 December 2018, the Company managed 146 and 136 financing trusts, respectively, and the AUM decreased by 12.6% from RMB48,314 million as at 31 December 2017 to RMB42,227 million as at 31 December 2018. Revenue from financing trusts for 2018 decreased by 17.4% to RMB464 million as compared to 2017.

Investment Trusts

With investment trusts, the Company provides asset and wealth management services to institutional investors and 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 trusts and the business scope of the trust license enable the Company to offer financial products with unique value to institutional investors and HNWIs.

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

(1) **Equity Investment Trusts:** The Company's equity investment trusts mainly invest in the equity of unlisted enterprises or trust business of other equity which may be invested as approved by the CBIRC with the funds of trust under the trust plan.

(2) **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, the Shenzhen Stock Exchange and inter-bank bond market throughout the country, 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.

(3) **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.

(4) **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. 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 continued to grow rapidly. As at 31 December 2018, the Company's family trust business has signed in aggregate a contract amount of RMB7.66 billion, of which the trust assets that have actually been delivered amounted to RMB5.836 billion, representing a year-on-year increase of 194.21%, thus continuing to secure a leading position in the industry. Since 2018, the Company successfully implemented an order of delivering RMB0.5 billion super-large scale pure capital family trust product, special-purpose family trust and independent investment right retained family trust. It officially launched the family trust brand "De Shan Qi Jia" (德善齊家), 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 again with the "Best Family Trust Scheme" (優秀家族信託計劃) by Securities Times (證券時報), 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. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.

(5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing private and institutional wealth management business. The Company has established certain individual trusts whereby clients entrust their funds to the Company through the trust plan and allow the Company to allocate the funds into different trust products chosen 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 31 December 2018, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB2.048 billion.

(6) **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 evolved into a branded business development model that integrates with the Company's family trust business. As at 31 December 2018, the Company managed three charitable trusts, with the AUM reaching RMB35.2 million.

As at 31 December 2017 and 31 December 2018, the Company had 296 and 531 investment trusts, respectively, with AUM increasing by 60.0% from RMB29,645 million as at 31 December 2017 to RMB47,431 million as at 31 December 2018. Revenue from investment trusts for 2018 amounted to RMB163 million, representing a decrease of 26.6% as compared to 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 investment and 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 2018, in response to regulatory requirements, the Company actively carried out "removal of channels" in a stable manner and took the first move to downsize pipeline businesses. Therefore, the AUM of the Company's administrative management trust and its income from such trusts generally decreased. As at 31 December 2017 and 31 December 2018, the Company had 513 and 411 administrative management trusts in existence, respectively, with trust AUM decreased by 23.3% from RMB185,449 million as at 31 December 2017 to RMB142,264 million as at 31 December 2018. In 2018, the income of the Company from administrative management trusts was RMB264 million, representing a decrease of 23.7% as compared to 2017.

Proprietary Business

In 2018, in order to reasonably allocate its own funds and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, mid-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 to conduct equity investment business with its proprietary assets and participated in the establishment of venture capital fund, in a bid to seek proprietary business transformation and foster new growth engines. Thirdly, the Company actively pushed forward the equity transfer for First-Trust 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, purchase of wealth management products and dedicated account management for overseas assets were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Through its incessant efforts, the Company recorded an income of RMB883.1 million for its proprietary business in 2018, representing a year-on-year increase of 29.6%.

Allocation of Proprietary Assets

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

In conducting the Company's proprietary business, the Company allocates the Company's proprietary assets into different asset classes and invests in businesses with strategic value for the Company's trust business in order to maintain and increase the value of the Company's proprietary assets. The Company manages and invests its proprietary assets according to the Company's annual assets allocation plans, which are formulated by the management of the Company and approved by the Board. The Company makes strategic long-term investments in a number of financial institutions, which helps to establish stronger business relationships with these financial institutions and create synergies for the Company's operations. The Company also invests 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 purchased under agreements to resell in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of 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 31 December	
	2018	2017
	(RMB in thousands)	
Investments in monetary assets	**993,793**	2,014,511
Deposits at banks	**898,693**	1,063,111
Government bonds purchased under agreements to resell	**95,100**	951,400
Securities Investments	**6,643,234**	5,022,948
Investment in equity products	**406,645**	414,208
Listed shares classified as:		
– financial assets at FVTPL	**1,601**	18,199
– available-for-sale financial assets	**N/A**	5,431
Subtotal	**1,601**	23,630
Mutual funds classified as:		
– financial assets at FVTPL	**360,759**	81,246
– available-for-sale financial assets	**N/A**	276,832
Subtotal	**360,759**	358,078
Equity investment in unlisted entities classified as financial assets at FVTPL	**44,285**	32,500
Investment in wealth management products		
Investments in our consolidated trust schemes	**5,508,521**	4,167,021
Investments of the financial assets in our unconsolidated trust schemes and classified as loans and receivables	**N/A**	243,990
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortised cost	**60,210**	N/A
Investment in unconsolidated trust schemes classified as financial assets at FVTPL	**534,345**	30,000
Asset management plans	**133,513**	167,729
Long-Term Equity Investments	**1,364,214**	1,238,322
Investment accounted for using the equity method	**1,246,219**	1,125,161
Investment classified as financial assets at FVTPL	**117,995**	–
Investments classified as available-for-sale financial assets	**N/A**	113,161
Proprietary Loans	**516,573**	519,400
Trust Industry Protection Fund	**92,109**	68,626
Total	**9,609,923**	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 31 December	
	2018	2017
	(RMB in thousands)	
Investment in monetary assets		
– Deposit at banks	**898,693**	1,063,111
– Government bonds purchased under agreements to resell	**95,100**	951,400
Total	**993,793**	2,014,511

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Interest income generated from:		
– Deposit at banks	**11,692**	2,003
– Government bonds purchased under agreements to resell	**17,888**	18,374
Total	**29,580**	20,377

Average investment return of the Company's monetary assets (calculated as the total of investment income (in terms of interest income received), annualised as a percentage of average investment balance in such monetary assets, where appropriate) was 1.6% and 2.0% for the years ended 31 December 2017 and 31 December 2018, respectively. The increase in average investment return was attributable to the increase in the interest income generated from the proceeds raised by the Company from the global offering partially deposited with overseas banks in December 2017.

Securities Investments

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

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

	Year ended 31 December	
	2018	2017
	(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	**410.4**	396.6
– Trust schemes	**5,272.0**	4,128.3
– Asset management products	**150.6**	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 3.5% from RMB396.6 million in 2017 to RMB410.4 million in 2018; the average balance of investments in trust schemes increased by 27.7% from RMB4,128.3 million in 2017 to RMB5,272.0 million in 2018; and the average balance of the Company's investments in asset management products decreased by 6.9% from RMB161.7 million in 2017 to RMB150.6 million in 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 31 December 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 31 December 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 Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	Automobile financing	10.00%	Yes	September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd.* (泰山財產保險股份有限公司)	Insurance products and services	9.85%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd.* (德州銀行股份有限公司)	Commercial banking	2.37%	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 FVTPL 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 FVTPL, and those accounted for as available-for-sale financial assets) together with their investment return (in terms of dividend income generated) for the periods indicated below are summarised as follows:

	As at 31 December	
	2018	2017
	(RMB in thousands)	
Long-term equity investments, accounted for:		
– As associate using the equity method	**1,246,219**	1,125,161
– Investment classified as financial assets at FVTPL	**117,995**	–
– As available-for-sale financial assets	**N/A**	113,161
Total	**1,364,214**	1,238,322

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Dividend income generated from:		
– Associates accounted for by the equity method	**25,013**	55,746
– Financial assets at FVTPL	**5,911**	–
– Available-for-sale financial assets	**N/A**	332
Total	**30,924**	56,078

Average investment returns of the Company's long-term equity investments (calculated as the total of investment income (in terms of dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) was 4.6% and 2.4% for the years ended 31 December 2017 and 31 December 2018, respectively. The decrease in average return on long-term equity investments in 2018 as compared to 2017 was primarily due to the decrease in dividend income from the associates of the Company.

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 31 December 2018, the outstanding balance of the Company's proprietary loans were RMB519.4 million and RMB516.6 million, respectively.

Trust Industry Protection Fund

According to the Administrative Measures on Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, trust companies are required to subscribe for a certain amount of the protection fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 34.2% from RMB68.6 million as at 31 December 2017 to RMB92.1 million as at 31 December 2018.

FINANCIAL OVERVIEW

Consolidated Income Statements Analysis

In 2018, the net profit attributable to Shareholders of the Company amounted to RMB872.2 million, which decreased by RMB22.6 million as compared to the corresponding period of last year, representing a decrease of 2.5%.

Results of Operations

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Fee and commission income	**891,301**	1,129,771
Interest income	**647,511**	490,698
Net changes in fair value of financial assets at FVTPL	**(32,274)**	1,793
Investment (loss)/income	**(25,231)**	21,148
Net gains on disposal of associates held by consolidated structured entities	**160,851**	–
Other operating income	**52,348**	4,487
Total operating income	**1,694,506**	1,647,897

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Interest expenses	**(192,801)**	(167,731)
Staff costs (including directors and supervisors' emoluments)	**(125,519)**	(175,737)
Operating lease payments	**(11,661)**	(9,336)
Depreciation and amortisation	**(8,106)**	(9,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities	**(19,754)**	1,831
Tax and surcharges	**(12,978)**	(14,559)
Auditor's remuneration	**(1,792)**	(2,358)
Other operating expenses	**(73,330)**	(90,695)
Loan impairment charges and other credit risk provision	**(220,822)**	(199,922)
Impairment losses on other assets	**(33,093)**	(28,536)
Total operating expenses	**(699,856)**	(696,158)
Share of profit of investments accounted for using the equity method	**132,197**	167,675
Operating profit before income tax	**1,126,847**	1,119,414
Income tax expense	**(254,599)**	(224,609)
Net profit attributable to Shareholders of the Company	**872,248**	894,805

Total Operating Income

Fee and Commission Income

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Fee and commission income:		
Trustee's remuneration	**888,535**	1,125,510
Others	**2,766**	4,261
Total	**891,301**	1,129,771

The Group's fee and commission income in 2018 were RMB891.3 million, representing a decrease of 21.1% as compared to the RMB1,129.8 million in 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 decrease in floating trustee's remuneration received by the Company.

Interest Income

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Interest income from:		
Cash and bank balance	**11,692**	2,003
Loans to customers	**601,806**	448,124
Investments classified as financial investment measured at amortised cost	**10,244**	N/A
Investments classified as loans and receivables	**N/A**	16,024
Financial assets purchased under agreements to resell	**17,888**	18,374
Contribution to Trust Industry Protection Fund on behalf of trust schemes	**5,881**	6,173
Total	**647,511**	490,698

The Group's interest income in 2018 was RMB647.5 million, representing an increase of 32.0% as compared to the interest income of RMB490.7 million in 2017. Such increase was primarily due to the following factors:

(1) the Group's interest income from loans to customers increased by 34.3% from RMB448.1 million in 2017 to RMB601.8 million in 2018 primarily due to an increase in average balance of loans granted by the Group's consolidated trust schemes from 2017 to 2018 as a result of increase in the aggregate size of such consolidated trust schemes.

(2) the Company's interest income from cash and bank balance increased by 483.7% from RMB2.0 million in 2017 to RMB11.7 million in 2018, primarily due to the increase in 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 on financial assets at FVTPL turned from a gain of RMB1.8 million in 2017 to a loss of RMB32.3 million in 2018, which mainly attributable to the significant decrease in the net amount of the fund held by the Company.

Investment (loss)/Income

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Dividends income from:		
Financial assets at FVTPL	**5,911**	N/A
Available-for-sale equity investment	**N/A**	332
Net realised (losses)/gains from:		
Financial assets at FVTPL	**(31,142)**	5,933
Available-for-sale financial assets	**N/A**	14,883
Total	**(25,231)**	21,148

The Group's investment loss in 2018 was RMB25.2 million, decreased by RMB46.3 million as compared to the gain of RMB21.1 million in 2017, which was mainly attributed to the losses incurred from the disposal of stocks and funds by the Company in 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 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 Protection Fund Co., Ltd.* (中國信託業保障基金有限責任公司), (ii) interest paid for inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries).

The Group's interest expenses in 2018 was RMB192.8 million, increased by 14.9% as compared to RMB167.7 million in 2017, primarily due to the increase in interest paid to China Trust Protection Fund Co., Ltd..

Staff Costs (including directors and supervisors' emoluments)

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Salaries and bonuses	**92,832**	148,771
Pension costs (defined contribution plans)	**11,337**	9,047
Housing funds	**5,119**	4,063
Labour union fee and staff education expenses	**2,027**	2,651
Other social security and benefit costs	**14,204**	11,205
Total	**125,519**	175,737

The Company's staff costs in 2018 was RMB125.5 million, decreased by 28.6% as compared to RMB175.7 million in 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 10.9% from RMB14.6 million in 2017 to RMB13.0 million in 2018, primarily due to the decrease in stamp duty paid in 2018.

Other Operating Expenses

The Group's other operating expenses decreased by 19.1% from RMB90.7 million in 2017 to RMB73.3 million in 2018, primarily due to the listing expenses in 2017 and the increase in exchange losses resulted by the depreciation of Hong Kong dollars.

Impairment Losses on Assets

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Loan impairment charges and other credit risk provision		
– Loans to customers	**178,092**	187,303
– Financial investments measured at amortised cost	**10,709**	N/A
– Investment classified as loans and receivables	**N/A**	12,619
– Trustee's remuneration receivable	**(1,612)**	–
– Others	**33,633**	–
Sub-total	**220,822**	199,922
Impairment loss on other assets		
– Available-for-sale financial assets	**N/A**	28,536
– Investment in artwork	**25,426**	–
– Share of investments accounted for using the equity method	**7,667**	–
Sub-total	**33,093**	28,536
Total	**253,915**	228,458

The Group's loan impairment charges and other credit risk provision increased by 10.5% from RMB199.9 million in 2017 to RMB220.8 million in 2018, which was primarily due to the increase in impairment allowance for other financial assets held by the Company.

Impairment loss on other assets of the Group for 2018 amounted to RMB33.1 million, which was primarily due to the occurrence of the impairment loss on artwork 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 decreased by 21.2% from RMB167.7 million in 2017 to RMB132.2 million in 2018, primarily due to the increase in investment gain from Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司), which was partially offset by the investment losses from First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司) and Zouping SPD Rural 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:

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Operating profit before income tax	**1,126,847**	1,119,414
Operating margin(1)	**66.5%**	67.9%

Note:

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

As a result of the foregoing, the Group's operating profit before income tax increased by 0.7% from RMB1,119.4 million in 2017 to RMB1,126.8 million in 2018, and the Group's operating margin decreased from 67.9% in 2017 to 66.5% in 2018.

Income Tax Expense

The Company's income tax expense increased by 13.4% from RMB224.6 million in 2017 to RMB254.6 million in 2018, primarily due to a decrease in tax effect arising from non-taxable income in 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:

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Net profit attributable to Shareholders of the Company	**872,248**	894,805
Net profit margin(1)	**51.5%**	54.3%

Note:

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

As a result of the foregoing, net profit attributable to Shareholders of the Company decreased by 2.5% from RMB894.8 million in 2017 to RMB872.2 million in 2018. The Company's net profit margin decreased from 54.3% in 2017 to 51.5% in 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:

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Trust business:		
Operating income	**943,651**	1,134,147
Segment income	**943,651**	1,134,147
Proprietary business:		
Operating income	**750,855**	513,750
Share of profit of investments accounted for using the equity method	**132,197**	167,675
Segment income	**883,052**	681,425

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Trust business	**(220,512)**	(294,247)
Proprietary business	**(479,344)**	(401,911)
Total operating expenses	**(699,856)**	(696,158)

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Trust business	**723,139**	839,900
Proprietary business	**403,708**	279,514
Total operating profit before income tax	**1,126,847**	1,119,414

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

	Year ended 31 December	
	2018	2017
	(RMB in thousands)	
Trust business	**76.6%**	74.1%
Proprietary business	**45.7%**	41.0%

Trust Business

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

Segment operating profit before income tax for the Group's trust business decreased by 13.9% from RMB839.9 million in 2017 to RMB723.1 million in 2018, primarily due to a 16.8% decrease in segment income from trust business from RMB1,134.1 million in 2017 to RMB943.7 million in 2018.

The decrease in segment income from trust business was mainly due to a decrease in the Group's fee and commission income from RMB1,129.8 million in 2017 to RMB891.3 million in 2018, while the other operating income increased from RMB3.8 million in 2017 to RMB51.6 million in 2018.

The decrease in the segment operation expense in trust business was mainly due to a decrease in staff cost from RMB172.0 million in 2017 to RMB119.0 million in 2018, while the other operating expense decreased from RMB88.8 million in 2017 to RMB69.6 million in 2018.

As a result of the foregoing, the segment margin of trust business increased from 74.1% in 2017 to 76.6% in 2018.

Proprietary Business

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

Segment operating profit before income tax for the Group's proprietary business increased by 44.4% from RMB279.5 million in 2017 to RMB403.7 million in 2018 primarily due to a 29.6% increase in segment income from proprietary business from RMB681.4 million in 2017 to RMB883.1 million in 2018, which was partially offset by a 19.3% increase in segment operating expenses from proprietary business from RMB401.9 million in 2017 to RMB479.3 million in 2018.

(1) The increase in segment operating expenses from proprietary business was mainly due to (i) the increase in interest expense from RMB167.7 million in 2017 to RMB192.8 million in 2018; (ii) an increase in the change in net assets attributable to other beneficiaries of consolidated structured entities from RMB-1.8 million in 2017 to RMB19.8 million in 2018; and (iii) an increase in loan impairment charges and other credit risk provision and impairment loss on other assets from RMB228.5 million in 2017 to RMB253.9 million in 2018.

(2) The increase in segment income from proprietary business was mainly due to (i) an increase in interest income from RMB490.1 million in 2017 to RMB646.8 million in 2018; (ii) net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in 2018, as compared to nil in 2017. Interest income and net gains on disposal of associates held by consolidated structured entities were partially offset by the decrease of net changes in fair value on financial assets at FVTPL from a gain of RMB1.8 million in 2017 to a loss of RMB32.3 million in 2018 and the investment income from a gain of RMB21.1 million in 2017 to a loss of RMB25.2 million in 2018.

As a result of the foregoing, the segment margin of the Group's proprietary business increased from 41.0% in 2017 to 45.7% in 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. 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 31 December 2018, 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 RMB13,611.8 million, respectively, among which, total assets of the Company amounted to RMB10,117.7 million and RMB10,975.9 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments measured at amortised cost, (iv) financial assets at FVTPL, (v) cash and bank balances, (vi) trustee's remuneration receivable, and (vii) financial assets purchased under agreement to resell. As at 31 December 2018, the above-mentioned major assets accounted for 52.6%, 15.5%, 0.9%, 11.6%, 7.9%, 1.9% and 0.7% of the Group's total assets, respectively.

Loans to Customers

The following table sets forth the gross amount of the Group's loans to customers, 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 31 December	
	2018	2017
	(RMB in thousands)	
Loans to customers, at amortised cost	**7,683,391**	6,581,191
Interest receivable	**75,340**	N/A
Less: Expected credit losses provision – loan	**(600,424)**	N/A
– Expected credit losses provision – interest receivable	**(1,554)**	N/A
– Collectively assessed	**N/A**	(114,726)
– Individually assessed	**N/A**	(284,033)
Loans to customers, net	**7,156,753**	6,182,432
Analysed into:		
– Non-current assets	**3,249,109**	3,196,960
– Current assets	**3,907,644**	2,985,472
Loans to customers, net	**7,156,753**	6,182,432

The substantial majority of the Group's loans to customers were granted by the Company's consolidated trust schemes. The gross amount of the Group's loans to customers increased continuously during the Reporting Period primarily because more financing trust scheme were consolidated by the Company in accordance with IFRS 10 in 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 62.8% from RMB844.9 million as at 31 December 2017 to RMB1,375.4 million as at 31 December 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 31 December 2018 was RMB1,334.4 million and RMB765.3 million, respectively. The Company had performed assessments of ECL to determine the provision for impairment losses on those loans and made allowance for impairment of RMB284.0 million and RMB470.3 million for these impaired loans as at 31 December 2017 and 31 December 2018, respectively, representing 33.6% and 34.2% 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 17.9% of the Group's gross loans to customers as at 31 December 2017 and 31 December 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 31 December 2018, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 7.8% and 7.3% 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 31 December	
	2018	2017
	(RMB in thousands)	
Loans to customers, at amortised cost	**602,000**	530,000
Interest receivable	**28,500**	N/A
– Expected provision of credit losses – loan	**(85,427)**	N/A
– Expected provision of credit losses – interest receivable	**(588)**	N/A
– Collectively assessed	**N/A**	10,600
– Individually assessed	**N/A**	–
Loans to customers, net	**544,485**	519,400
Analysed into:		
– Non-current assets	**148,185**	372,400
– Current assets	**396,300**	147,000
Loans to customers, net	**544,485**	519,400

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 in Associates

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 or measured at fair value. The following table sets forth the associates of the Company and associates of the Company's certain consolidated structured entities and the book value of the Company's investments in them as at the dates indicated:

	Equity Interest as at 31 December 2018	As at 31 December 2018	2017
		(RMB in thousands)	
Associates of the Company:			
Fullgoal Fund Management Co., Ltd.	**16.68%**	**565,995**	473,176
Dezhou Bank Co., Ltd.	**2.37%**	**150,010**	139,152
First-Trust Fund Management Co., Ltd.	**45.00%**	**68,833**	105,642
Shandong HOWO Auto Finance Co., Ltd.	**10.00%**	**192,474**	169,887
Zouping SPD Rural Bank Co., Ltd.	**10.00%**	**8,510**	26,157
Taishan Property & Casualty Insurance Co., Ltd.	**9.85%**	**207,147**	211,147
Shandong Luxin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership)	**26.00%**	**52,000**	–
Anhui Luxin Equity Investment Fund Management Company Limited	**25.00%**	**1,250**	–
Gross amount		**1,246,219**	1,125,161
Impairment allowance		**–**	–
Associates of the Company, net		**1,246,219**	1,125,161
Associates of the Company's certain consolidated structured entities accounted for using the equity method:			
Shandong Provincial Financial Asset Management Co., Ltd.	**7.24%**	**621,044**	618,730
Tailong Health Industry Investment Company Limited	**26.05%**	**52,100**	80,000
Others		**33,391**	78,143
Gross amount		**706,535**	776,873
Less: Impairment allowance		**(7,667)**	–
Associates of the Company's certain consolidated structured entities accounted for using the equity method, net		**698,868**	776,873

	Equity Interest as at 31 December 2018	As at 31 December 2018	2017
		(RMB in thousands)	
Associates indirectly held by the Group through trust schemes measured at fair value:			
Shenzhen Qianhai Run Xin Investment Co., Ltd.	**30%**	**18,900**	–
Henan Liang Ding Property Co., Ltd.	**35%**	**94,650**	–
Liaocheng Liang Hong Property Co., Ltd.	**15%**	**50,144**	–
Gross amount		**163,694**	–
Total		**2,108,781**	1,902,034

Financial Assets at FVTPL

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

	As at 31 December 2018	2017
	(RMB in thousands)	
Listed shares	**42,482**	18,199
Mutual funds	**406,505**	81,246
Asset management products	**133,513**	–
Wealth management products	**35,090**	–
Investment in trust schemes	**312,858**	353,280
Trust Industry Protection Fund	**92,109**	–
Equity investment in unlisted entities	**556,314**	32,500
Total	**1,578,871**	485,225

The changes in the major composition of the Group's financial assets at FVTPL were due to the flexible adjustment of portfolio based on the market conditions by the Company in order to increase investment returns. Financial assets at FVTPL increased by 225.4% from RMB485.2 million as at 31 December 2017 to RMB1,578.9 million as at 31 December 2018, primarily due to (i) the reclassification of financial assets originally calculated as available-for-sale financial assets to financial assets at FVTPL under IFRS 9; (ii) the increase in the Group's equity investment of unlisted entities and (iii) increase in the subscription of Trust Industry Protection Fund.

Cash and Bank Balances

As at 31 December 2017 and 31 December 2018, the Group's cash and bank balances amounted to RMB1,172.8 million and RMB1,081.3 million, respectively, among which RMB1,063.2 million and RMB898.7 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank balances of the Group's consolidated trust schemes.

Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable decreased by 20.1% from RMB315.0 million as at 31 December 2017 to RMB251.8 million as at 31 December 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 will normally be allowed to receive trustee remuneration after the trust has paid its quarterly dividends, the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 28 February 2019, 12.4% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Agreements to Resell

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

The Company's government bonds purchased under agreements to resell decreased by 90.0% from RMB951.4 million as at 31 December 2017 to RMB95.1 million as at 31 December 2018. These changes were due to the flexible adjustment of the business scale of the Company's government bonds purchased under agreements to resell business based on overall market condition and interest rate, and such adjustment resulted in a change in the carrying amount of the Company's government bonds purchased under agreements to resell as at 31 December 2017 and 31 December 2018.

Prepayments

The Company's prepayments increased from RMB19.0 million as at 31 December 2017 to RMB161.0 million as at 31 December 2018, primarily related to the increase in prepayments made by the consolidated trust plan of the Company in 2018.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Administrative Measures on Trust Industry Protection Fund issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to the Trust Industry Protection Funds and the Company should collect the required contribution funds from its counterparty clients and pays to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by the Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts. The Company records the amount of contribution funds it has paid on behalf of its counterparty clients as contribution to Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB637.9 million and RMB560.2 million as at 31 December 2017 and 31 December 2018, respectively, among which RMB276.7 million and RMB316.6 million was classified as non-current assets, and RMB361.2 million and RMB243.6 million was classified as current assets. Instead of collecting such amounts from the counterparty clients before liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. At the end of the Reporting Period, the Company has not encountered any difficulty in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of the Company's financing trusts.

Liabilities

As at 31 December 2017 and 31 December 2018, the Group's total liabilities amounted to RMB3,754.5 million and RMB4,071.1 million, respectively. As a trust company in China, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. 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 payable, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 31 December 2018, net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, income tax payable, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 62.0%, 11.1%, 4.6%, 2.0% and 20.3% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) decreased by 6.0% from RMB2,687.0 million as at 31 December 2017 to RMB2,525.8 million as at 31 December 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 increased by 5.6% from RMB178.9 million as at 31 December 2017 to RMB188.9 million as at 31 December 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 trust remuneration fee income 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 RMB283.7 million as at 31 December 2018.

The Company's deferred trustee's remuneration increased from RMB37.6 million as at 31 December 2017 to RMB66.5 million as at 31 December 2018.

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 and the State Administration of Taxation 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 at 31 December 2018, the outstanding VAT for trusts and the related surcharges amounted to RMB188.9 million.

Off-balance Sheet Arrangements

As at 31 December 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 2018, the Company consolidated 45 and 51 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB6,957.6 million and RMB8,676.8 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	As at 31 December	
	2018	2017
At the beginning of the period:	**45**	36
Newly consolidated trust schemes	**23**	17
Deconsolidated trust schemes	**17**	8
At the end of the period:	**51**	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 FVTPL, investments in associates and other assets) in the Company's total assets. The following table illustrates the impact on the Company's total assets resulting from the consolidation of these trust schemes during the Reporting Period:

	As at 31 December	
	2018	2017
	(RMB in millions)	
Total assets of the Company	**10,976**	10,118
Total assets of consolidated trust schemes	**8,677**	6,958
Consolidation adjustment	**(6,041)**	(4,174)
Total assets of the Group	**13,612**	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 and investments in associates.

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

	As at 31 December	
	2018	2017
	(RMB in millions)	
Total liabilities of the Company	**1,608**	1,068
Total liabilities of consolidated trust schemes	**8,677**	6,958
Consolidation adjustment	**(6,214)**	(4,271)
Total liabilities of the Group	**4,071**	3,755

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 31 December	
	2018	2017
	(RMB in millions)	
Total equity of the Company	**9,368**	9,050
Consolidation adjustment	**173**	97
Total equity of the Group	**9,541**	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 represents interest income of the Group's consolidated financing trust schemes that were expected to be distributed to third-party beneficiaries of such trust schemes. However, as these impacts on income and expenses largely offset each other, the resulting impact on net profit attributable to the Company's Shareholders has been reduced. The following table illustrates the impact on net profit attributable to the Company's Shareholders resulting from the consolidation of these trust schemes during the Reporting Period:

	Year ended 31 December	
	2018	2017
	(RMB in millions)	
Net profit attributable to the Company's Shareholders before consolidation of trust schemes	**784**	803
Impact of consolidation of trust schemes	**88**	91
Net profit attributable to the Group's shareholders after consolidation of trust schemes	**872**	894

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

(1) Whether the Company has power over the trust scheme, and whether the Company can exercise the rights that give the Company the ability to affect the relevant activities of the trust scheme. Usually the Company has such power when it acts as the trustee of those actively managed trusts, as the contractual terms in the trust contracts allow the Company to determine the selection of assets or projects in which the trust assets will be invested in, to perform due diligence on the assets or projects as well as the counterparties that hold the assets or projects, to determine the pricing strategy, and to be actively involved in the ongoing management and disposition of the trust assets;

(2) Whether the Company is exposed to the risks of or has rights to, variable returns from its involvement as the trustee when the Company's returns from its involvement have the potential to vary as a result of the performance of the trust scheme. Such variable returns may either form a part of the investment returns from the trust scheme when the Company has proprietary funds invested in the trust scheme, or as floating trustee's remuneration as are calculated according the relevant terms in the trust contracts; and

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

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

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

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

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

RISK MANAGEMENT

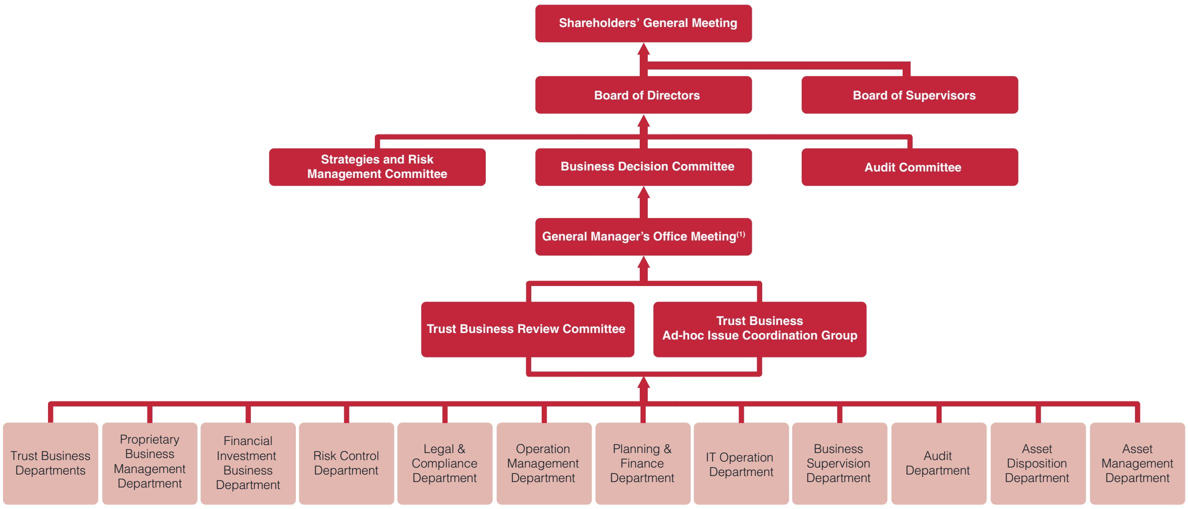
Overview

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 & Finance Department, IT Operation Department, Business Supervision Department, Audit Department, Asset Disposition Department, Asset Management Department, Proprietary Business Management Department and Financial Investment Business Department. Finally, all Trust Business Departments of the Company 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 our senior management members, including general manager, vice general manager, secretary to the Board, chief risk control officer and chief financial officer.

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 Chinese economy has experienced rapid growth over the past 40 years, it has entered a stage of high-quality development characterised by economic structure optimisation, industry transformation and upgrading. The structural transformation of the Chinese economy and fluctuations in macroeconomic policy and financial market present challenges for the Company's business. For example, regulation of the real estate industry in China and control on local governments to incur debts may negatively affect the Company's trust business. Under the background of economic slowdown, structural adjustment and financial "deleveraging", macroeconomic situation created certain pressure and constraint on the capital and asset sides of 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 decrease in its traditional business, and therefore, the trust business will continue to be significantly affected by general economic and financial market conditions in China.

The Company has made proprietary investments in different kinds of 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 proprietary investments.

Regulatory Environment

The Company's results of operations, financial condition and development 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 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 revisiting to the fundamentals of trust industry. 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 September 2018, the CBIRC promulgated the "Administrative Measures for Supervision of Wealth Management Business of Commercial Banks" (《商業銀行理財業務監督管理辦法》) and the "Administrative Measures for Wealth Management Subsidiaries of Commercial Banks" (《商業銀行理財子公司管理辦法》) in December, which clearly stipulated the wealth management business of commercial banks, allowing commercial banks to develop asset management services through the establishment of financial management subsidiaries. The Company has traditionally benefited from the expanded business scope under the Company's trust license. However, other financial institutions, such as commercial banks, 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 Mix

The Company has two business segments, namely trust business and proprietary business. The Company's historical financial results were significantly affected by the fee and commission income from the Company's trust business. As a result, any material changes in the Company's trust business, such as in terms of client development, growth strategies and regulatory requirements, may significantly affect the Company's financial condition and results of operations. The Company also offers a variety of trust products, including actively managed trusts, which have relatively high trust remuneration rates, and administrative management trusts, which have relatively low trust remuneration rates. The Company has financing trusts that provide financings to counterparty clients in different industries and investment trusts that invest 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 means of management 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. 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 continues 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 through optimization of asset allocation, 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 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 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 other financial institutions that provide assets and wealth management services. Given the changes of regulation policies on various financial sectors, 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.

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 carry out 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.

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 CBIRC, 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 and 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 financiers, 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 financiers 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. The Legal & Compliance Department is 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 provided continuous 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 is responsible for internal auditing and evaluating the effectiveness of the operational risk management.

Reputational Risk Management

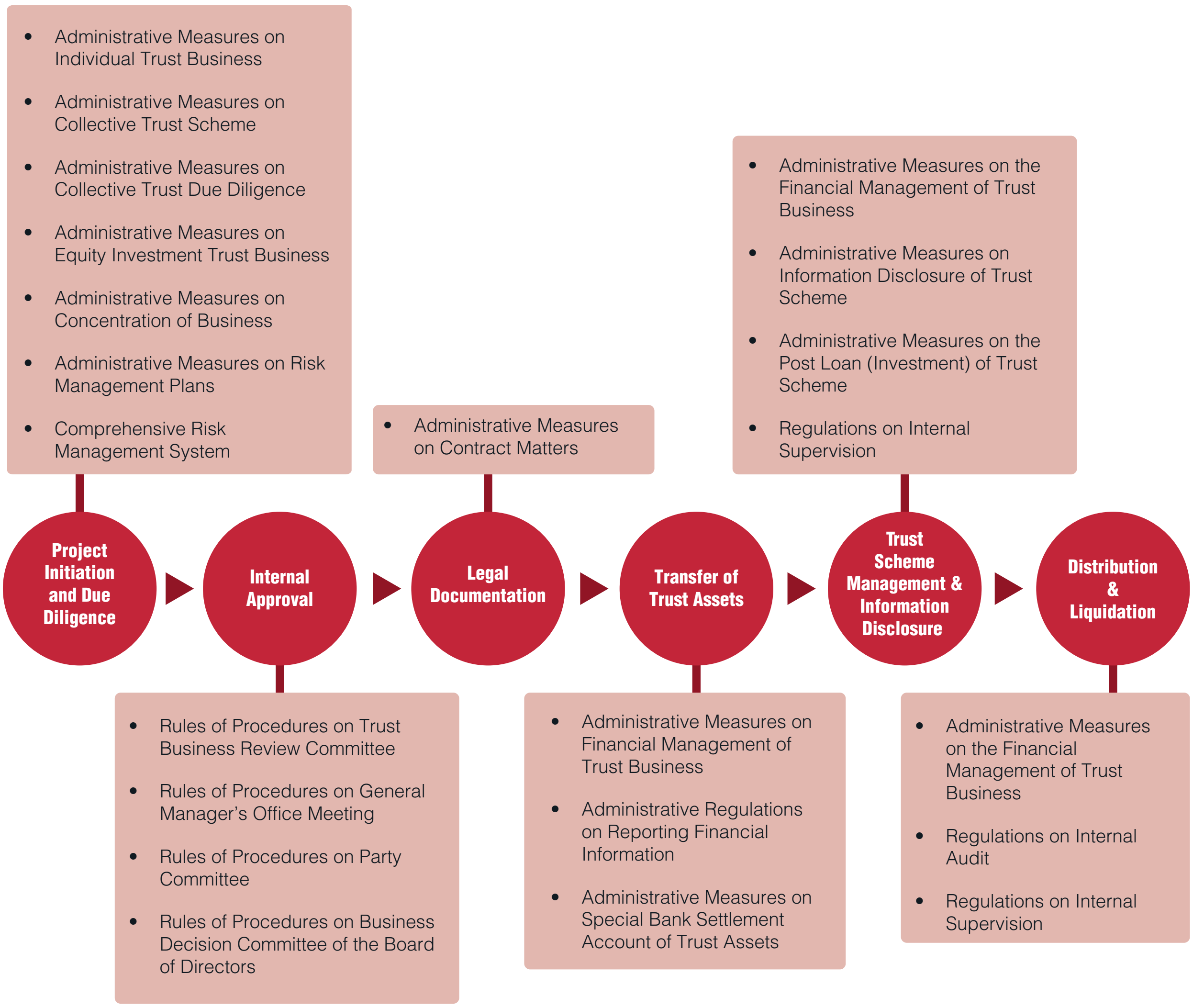
The Company values its positive market image which has been built over the years. It actively implements effective measures to avoid and prevent from any harm to its reputation. The Company formulated the Administrative Measures on Reputational Risk Management. During the Reporting Period, the Company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

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 awareness 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 may be 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 Leading Work 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, General Management Department, Audit Department and Office of Party Committee and Discipline Inspection, 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 data 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 data 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 data during its daily operation, in particular where there is 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 data available to the Company and the data 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 data of the Company's clients is recorded and archived in accordance with the relevant PRC laws. Such identification data 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 Work 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 Leading Work 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 centred 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 CBIRC. 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 CBIRC on a quarterly basis.

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

As at 31 December 2018, the Company's net capital was approximately RMB7.951 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB4.348 billion; the ratio of net capital to total risk-based capital was 182.87%, which is not lower than 100%; and the ratio of net capital to net asset was 84.87%, which is not lower than 40%.

Human Resources Management

Guided by the target of corporate strategies for the human resources work of the Company in 2018, the Company always adheres to enhancing human resources value and providing solid organisational assurance and talents support to the high-level breakthrough of transformation, innovation and development of the Company.

The Company formulated human resources development strategy according to corporate strategies, fully strengthened the development of human resources management system, established the long-term mechanism for "selecting, using, cultivating and maintaining" talents, fully motivated the entrepreneurial enthusiasm of all employees and officers and created a good talent development environment.

The Company further optimised organisational structure, integrated and optimised departments, clarified duties of departments and offices, established the Head Office of Regional Business and formulated specific administrative measures, for laying an organisational foundation for the business development of the Company.

The Company standardised the management of selection and appointment of personnel, promoted the development of staff and kept improving the management ability and level of the management. The Company promoted institutional improvement, provided staff with various promotion channels and addressed the practical issue of "limited posts but unlimited talents".

We believe the competence and loyalty of its employees are vital to its sustainable growth. The Company has adopted a market-oriented performance assessment, appraisal and incentive system, under which compensation is linked to employee's performance. Comprehensive 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 always insist on the development of "learning organisation" and has provided staff with a multi-level, year-round training programme, and we exert great efforts in improving the comprehensive quality and work skills of staff. We carry out internal training by means of internal case sharing and engaging external professional mentors. In addition, we actively encourage employees to "go out". We keep improving the development of the Company's training system by combining compulsory courses with optional courses and focusing on training credits. We provide efficient, professional and all-around training according to the needs of different posts and levels.

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 our management will continue to maintain good relationships with the labour union and its employees.

To develop and increase the sense of belonging, accomplishment and happiness of employees through recreational and sports and charitable activities and to enhance the professional competence of employees through regular specialised trainings and seminars

As at 31 December 2017 and 31 December 2018, the Company has a total of 199 and 221 employees, respectively. The number and percentage of different employees by departments are as follows:

	31 December 2018		31 December 2017	
	Number of employees	**%**	Number of employees	%
Management	**8**	**3.62**	7	3.52
Trust business employees	**89**	**40.27**	76	38.19
Proprietary business employees	**6**	**2.72**	5	2.51
Wealth management employees	**24**	**10.86**	19	9.55
Risk management and audit employees	**30**	**13.57**	24	12.06
Financial and accounting employees	**16**	**7.24**	17	8.54
Operation management employees	**32**	**14.48**	30	15.08
Other staff (1)	**16**	**7.24**	21	10.55
Total	**221**	**100.00**	199	100.00

Note:

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

As at 31 December 2017 and 31 December 2018, the details of employees by age are as follows:

	31 December 2018		31 December 2017	
	Number of employees	**%**	Number of employees	%
Aged 25 and below	**4**	**1.81**	4	2.01
Aged 25–29	**49**	**22.17**	48	24.12
Aged 30–39	**117**	**52.94**	98	49.25
Aged 40 and above	**51**	**23.08**	49	24.62
Total	**221**	**100.00**	199	100.00

As at 31 December 2017 and 31 December 2018, the details of employees by education level are as follows:

	31 December 2018		31 December 2017	
	Number of employees	**%**	Number of employees	%
Doctoral degree and above	**6**	**2.71**	6	3.01
Master's degree	**152**	**68.78**	135	67.84
Bachelor's degree	**52**	**23.53**	48	24.12
Junior college and below	**11**	**4.98**	10	5.03
Total	**221**	**100.00**	199	100.00

FUTURE PROSPECTS

For a certain time period in the future, in spite of increasing downside risk faced by global economic growth, the overall global economy will continue to recover; but the global economy and the financial market will still be subject to more uncertainties due to trade friction, financial market sentiment, geopolitics and other factors. The development of China is still and will be in an important period of strategic opportunity for a long term. There are many factors favourable for the steady development of the PRC economy, and the economy is poised to realise potential and resilient growth. In the meantime, as the international environment and domestic conditions faced by China's economic development are undergoing profound and complicated changes, and latent risks accumulated in a long term start to become evident, the economy will still be faced with downward pressure, and economic operation will be subject to changes and uncertainties while maintaining stability. The financial industry will enhance its capability in serving the real economy by focusing on serving supply-side structural reform in order to prevent and mitigate financial risks and thoroughly implement the policies on reformation, expansion and opening-up, while proactively pursuing quality development. New steps will be made for trust business amid the new landscape of asset management by persisting in revisiting the fundamentals of trust industry to serve the real economy through transformation and innovation with an aim to create better living environment while reinforcing risk management, keeping development pace, enhancing the quality and efficiency of development and paying great efforts in catching up with the trend of the new era.

KEY TASKS FOR 2019

Based on analysis and judgement about domestic and international economic and financial situation, industry regulatory environment and competition in asset management industry, coupled with the actual conditions of the Company, the Company proposes to carry out the following key tasks for 2019:

Consolidating traditional competitive business, expediting exploration of innovative business, and promoting greater breakthrough in active management. First, we will consolidate traditional competitive business, to ensure steady sources of profits. We will profoundly develop the actively managed real estate trust and exert great efforts to drive the implementation of "equity + debts" active management projects. We will also promote the family trust business to grow strong, plow energies to build "De Shan Qi Jia" (德善齊家) family trust brand, so that we will become the first mover in developing standard family trust, and proactively and steadily develop infrastructure trust business. Second, we will expedite exploration into innovation business and cultivate new profit growth engines. We will explore into developing innovative products and provide greater financial support to "Ten Major" industries of Shandong Province. We will develop and launch cash management products and cultivate more product lines of the Company, so as to satisfy clients' demands for investing with idle funds and enhance client cohesiveness. We steadily advance the consumption trust business in compliance with the regulatory requirements, and improve the risk control capability by leveraging third-party payment agents and credit reference agencies, thereby fostering stable sources of profits of the Company. We will also explore the development of asset-backed securitisation business and strive to make breakthroughs in asset-backed securitisation business in respect of credit assets, property rent and individual housing loans.

Promoting the construction of smart trust platform backed by the "information + technology" strategy, and actively building a service ecosystem for high-net-worth clients. We will promote the construction of smart trust system and build a sound enterprise-level data center in an orderly way by focusing on revisiting the fundamentals of trust industry, leading business transformation, improving operational efficiency and optimising user experience. We will establish an agile smart trust team, to promote the realisation of breakthrough in key segments with an efficient and flexible innovation mechanism. In respect of capital, we will accelerate the building of service ecosystem for high-net-worth clients; in respect of assets, we will step up efforts to accumulate industry data and scenario data, to lay a solid foundation for data credit and data risk control; in respect of operation, we will, based on user experience, improve operational efficiency and further unlock productivity.

Further expanding marketing channels, optimising regional business layout and improving independent marketing capability and business capability. In respect of building marketing channels, we will keep expanding commissioned commercial bank channels, further improve layout of independent marketing branches in major cities, and advance the introduction of marketing talents, so as to effectively improve the independent marketing capability. We will continue to implement the full marketing strategy and exert great efforts to promote trust concept and deeply explore potential clients, therefore expanding customer base and effectively increasing the number of active clients. We will also explore the implementation of on-line marketing. In respect of regional business layout, we will encourage and guide business teams to conduct business in major regions across the nation, including Beijing-Tianjin-Hebei Region, Yangtze River Delta and Guangdong-Hong Kong-Macau Greater Bay Area, to explore more business opportunities.

Actively setting up overseas subsidiaries, introducing international talents, and expediting international business layout. Capitalising on the advantageous listing status in Hong Kong, we will strive to obtain support from regulatory authorities, actively set up overseas subsidiaries; and expedite international business layout by taking the opportunity of obtaining overseas financial licenses, so that we will be able to satisfy the investment and financing needs from domestic enterprises and HNWIs. We will speed up the introduction of international professional talents and further establish and improve a package of overseas subsidiary management system that covers personnel recruitment, personnel management, performance assessment and incentives and constraints.

Optimising internal control, improving risk management level and providing a strategic guarantee to high-quality development. We will deepen the general operation management and effectively apply the synergetic effects among front, middle and back offices, to fully improve internal control level and work efficiency. We will further improve risk control procedures and implement stricter inspections on risks in relation to existing projects in key areas and weak links, to realise "early identification, early warning and early disposal", and we will take multiple risk mitigation measures at the same. We will continue to boost the building of compliance system, improve the compliance awareness of all the staff members, and practically implement relevant systems to prevent operational risks. We will implement the concept of creating values through research and development, boost interactions between R&D and business departments and advance the exploration and implementation of innovation business.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

CHANGES IN SHARES

Category of shares	31 December 2017 Number of shares	31 December 2017 Percentage (%)	Increase or decrease during the Reporting Period	31 December 2018 Number of shares	31 December 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**

According to the authorisation of the 2018 Second Extraordinary General Meeting, the Company completed the issue of a total of 2,070,600,000 new Shares, including 1,552,940,000 new Domestic Shares and 517,660,000 new H Shares, to Shareholders by way of capitalisation of capital reserve fund on a pro-rata basis on 8 January 2019. As at the date of this annual report, the total number of the issued Shares of the Company amounted to 4,658,850,000 Shares, including 3,494,115,000 Domestic Shares and 1,164,735,000 H Shares, accounting for 75% and 25% of the total share capital of the Company. Details on the conversion of capital reserve fund to share capital is set out in the paragraph headed "Capitalisation Issue and Change in Board Lot Size" in the section "Significant Events" in this annual report.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

As at 31 December 2018, according to the register of members of the Company, the Company had 64 holders of H Shares (provided by H Share Registrar) and 6 holders of Domestic Shares in total.

As at 31 December 2018, the shareholding of top ten Shareholders of the Company is set out as follows (shareholding of H Shares are calculated based on the number of shares stated in the register of members of the Company established in the H Share Registrar):

Number	Name of Shareholder(s)	Increase or decrease during the Reporting Period (+/-)	Number of shareholding as at the end of the Reporting Period	Shareholding ratio as at the end of the Reporting Period (%)	Number of shares held subject to trading moratorium at the beginning of the Reporting Period [1]	Number of shares held subject to trading moratorium at the end of the Reporting Period[1]	Nature of Shareholder(s)	Type of shares
1	Lucion Group	–	1,219,668,100	47.12	1,219,668,100[2]	–	Domestic state-owned legal person	Domestic Shares
2	CNPC Assets Management Co., Ltd.	–	485,293,750	18.75	485,293,750[2]	–	Domestic state-owned legal person	Domestic Shares
3	HKSCC Nominees Limited[3]	+108,000	375,571,000	14.51	175,788,000[4]	–	Overseas legal person	H Shares
4	Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司)	–	140,425,000	5.43	129,400,000[5]	–	Domestic state-owned legal person	H Shares
5	Qingdao Global Wealth Center Development and Construction Co., Ltd.* (青島全球財富中心開發建設有限公司)	–	130,900,000	5.06	–	–	Domestic state-owned legal person	H Shares
6	Shandong High-Tech Venture Capital Co., Ltd.* (山東省高新技術創業投資有限公司)	–	125,000,000	4.83	125,000,000[2]	–	Domestic state-owned legal person	Domestic Shares
7	Shandong Gold Group Co., Ltd.* (山東黃金集團有限公司)	–	44,485,260	1.72	44,485,260[2]	–	Domestic state-owned legal person	Domestic Shares
8	Jinan Energy Investment Co., Ltd.* (濟南市能源投資有限責任公司)	–	33,363,945	1.29	33,363,945[2]	30,000,000[6]	Domestic state-owned legal person	Domestic Shares
9	Weifang Investment Group Co., Ltd.* (濰坊市投資集團有限公司)	–	33,363,945	1.29	33,363,945[2]	–	Domestic state-owned legal person	Domestic Shares
10	Individual Shareholder	–	20,000	0.00	–	–	Overseas individual	H Shares

Notes:

(1) "Shares subject to trading moratorium" means shares subject to transfer limitations as required by laws and regulations or based on undertaking by shareholders.

(2) According to the PRC Company Law, shares issued prior to the public offering of the Company are not transferable within one year from the Listing Date. As of 31 December 2018, the transfer restriction has been lifted.

(3) HKSCC Nominees Limited ("**HKSCC Nominees**"), as an agent, held the total number of H Shares (excluding the H Shares held by Jinan Finance Holding Group Co., Ltd. and Qingdao Global Wealth Center Development and Construction Co., Ltd. through HKSCC Nominees stated in the above table).

(4) Such shares were held by ICBC Asset Management Scheme Nominee, Shandong Development & Investment Holding Group Co., Ltd., China Merchants Bank Corporation Limited Asset Management and Shandong Guohui Investment Co., Ltd., as the cornerstone investors of the Company, through HKSCC Nominees, and were subject to a lock-up period of six months since the Listing Date pursuant to the cornerstone investment agreement. As of 31 December 2018, such lock-up period has expired.

(5) Such shares were held by Jinan Finance Holding Group Co., Ltd. as a cornerstone investor of the Company, and were subject to a lock-up period of six months since the Listing Date pursuant to the cornerstone investment agreement. As of 31 December 2018, such lock-up period has expired.

(6) According to the two notices received by the Company from an intermediate court in the PRC, 30,000,000 Domestic Shares held by Jinan Energy Investment Co., Ltd. shall not be disposed of during the period from 14 November 2018 to 13 November 2021. The notices were issued in response to a property preservation application in relation to a civil litigation by a third party against Jinan Energy Investment Co., Ltd.

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 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.(3),(4)	Domestic Shares	Beneficial owner	1,219,668,100	62.83%	47.12%
	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%

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 Provincial State-owned Assets and Administration Commission[4]	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
Shandong Provincial Council for Social Security Fund[4]	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
CNPC Assets Management Co., Ltd.[5]	Domestic Shares	Beneficial owner	485,293,750	25.00%	18.75%
CNPC Capital Company Limited[5]	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability[5]	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
China National Petroleum Corporation[5]	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government[6]	H Shares	Interest in a controlled corporation	140,425,000[7]	21.70%	5.43%
Jinan Finance Holding Group Co., Ltd.[6]	H Shares	Beneficial owner	140,425,000[7]	21.70%	5.43%
Qingdao Global Wealth Center Development and Construction Co., Ltd.[8]	H Shares	Beneficial owner	130,900,000	20.23%	5.06%
Qingdao Laoshan District Finance Bureau[8]	H Shares	Interest in a controlled corporation	130,900,000	20.23%	5.06%
China Create Capital Limited	H Shares	Beneficial owner	64,737,000	10.00%	2.50%
Industrial and Commercial Bank of China Limited[9]	H Shares	Beneficial owner	62,924,000	9.72%	2.43%
China Asset Management Co., Ltd.[9]	H Shares	Investment manager	62,924,000	9.72%	2.43%
Dingxin Company Limited[10]	H Shares	Beneficial owner	51,315,000	7.93%	1.98%
Honesty Global Holdings Limited[10]	H Shares	Interest in a controlled corporation	51,315,000	7.93%	1.98%
Ou Guofei[11]	H Shares	Founder of a discretionary trust	51,315,000	7.93%	1.98%
Ou Zonghong[11]	H Shares	Beneficiary of a trust	51,315,000	7.93%	1.98%
TMF (Cayman) Ltd.[10],[11]	H Shares	Trustee	51,315,000	7.93%	1.98%
Xu Lixiang[11]	H Shares	Interest of spouse	51,315,000	7.93%	1.98%
Shandong Development & Investment Holding Group Co., Ltd.	H Shares	Beneficial owner	51,272,000	7.92%	1.98%
HWABAO TRUST CO., LTD.	H Shares	Trustee	35,974,000	5.56%	1.39%

Notes:

(1) All of the interests refer to long positions.

(2) As at 31 December 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. ("**Shandong High-Tech**") is a direct wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. ("**Lucion Venture Capital**"). Lucion Venture Capital is a non-wholly owned subsidiary owned as to 68.53% by Lucion Group and therefore is deemed to be interested in all of the shares of the Company held by Shandong High-Tech, and Lucion Group is deemed to be interested in all of the shares of the Company held indirectly by Lucion Venture Capital.

(4) Lucion Group is owned as to 70% by Shandong Provincial State-owned Assets and Administration Commission ("**Shandong SASAC**"), as to 20% by Shandong Guohui Investment Co., Ltd. and as to 10% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會). Shandong SASAC is therefore deemed to be interested in all of the shares of the Company directly and indirectly held by Lucion Group.

(5) CNPC Assets Management Co., Ltd. is a direct wholly-owned subsidiary of CNPC Capital Company Limited ("**CNPC Capital**") and CNPC Capital is wholly-owned by CNPC Joint Stock Company with Limited Liability ("**CNPC**"). CNPC, which is an A Share listed company, is held as to 77.35% by China National Petroleum Corporation. Each of CNPC Capital, CNPC and China National Petroleum Corporation are 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. ("**Jinan Finance Holding**") is wholly owned by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government ("**Jinan SASAC**") and Jinan SASAC is therefore deemed to be interested in all of the shares of the Company held by Jinan Finance Holding.

(7) To the knowledge of the Company, the number of shares reflected the interests of Jinan Finance and Jinan SASAC as at 31 December 2018, but the number of relevant shares were not reported through the application form filled by Jinan Finance Holding Group Co., Ltd. since their interests did not constitute reporting obligation pursuant to the Securities and Futures Ordinance, the updated number of shares were not reflected in their disclosure of interests form.

(8) Qingdao Global Wealth Center Development and Construction Co., Ltd. is wholly owned by Qingdao Laoshan District Finance Bureau and Qingdao Laoshan District Finance Bureau is therefore deemed to be interested in all of the shares of the Company held by Qingdao Global Wealth Center Development and Construction Co., Ltd.

(9) China Asset Management Co., Ltd. is the investment manager of Industrial and Commercial Bank of China Limited, and is therefore deemed to be interested in all of the shares of the Company held by Industrial and Commercial Bank of China Limited.

(10) Dingxin Company Limited is wholly owned by Honesty Global Holdings Limited and Honesty Global Holdings Limited is wholly owned by TMF (Cayman) Ltd. Honesty Global Holdings Limited and TMF (Cayman) Ltd. are therefore deemed to be interested in all of the shares of the Company held by Dingxin Company Limited.

(11) TMF (Cayman) Ltd., being the trustee of Ou Family Trust, holds 51,315,000 shares of the Company through Honesty Global Holdings Limited and Dingxin Company Limited, being its wholly-owned subsidiaries. Each of Mr. Ou Guofei, the founder of Ou Family Trust, Mr. Ou Zonghong, the beneficiary of Ou Family Trust and Ms. Xu Lixiang, the spouse of Mr. Ou Zonghong, are deemed to be interested in all of the shares of the Company held by the trust assets of Ou Family Trust.

Details of Substantial Shareholders Disclosure Required by CBIRC

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

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Name	Age	Gender	Date of joining/rejoining our Company	Position	Date of appointment for the session	Tenure	Roles and responsibilities	Name of Shareholders nominated
Wan Zhong (萬眾)	45	Male	From July 1996 to June 2012 and rejoined in March 2016	Chairperson of the Board and Executive Director	Chairperson of the Board: 9 January 2019 Executive Director: 10 July 2018	3 years	Overall management of the Company's business strategies, corporate governance and operations	Lucion Group
Xiao Hua (肖華)	53	Male	June 2017	Vice Chairperson of the Board and Non-executive Director	10 July 2018	3 years	Providing strategic advice and making recommendations on the operations and management of the Company, and assisting the Chairperson in the Board affairs	CNPC Assets Management
Yue Zengguang (岳增光)	45	Male	September 2008 to March 2016, and rejoined in May 2018	Executive Director	28 August 2018	3 years	Day-to-day management and operations of the Company	N/A
Jin Tongshui (金同水)	54	Male	From July 1998 to June 1995, from June 2000 to December 2011 and rejoined in August 2012	Non-executive Director	10 July 2018	3 years	Providing strategic advice and making recommendations on the operations and management of the Company	Lucion Group
Yen Huai- chiang (顏懷江)	46	Male	May 2015	Independent non-executive Director	10 July 2018	3 years	Providing independent advice on the operations and management of the Company	N/A
Ding Huiping (丁慧平)	62	Male	May 2015	Independent non-executive Director	10 July 2018	3 years	Providing independent advice on the operations and management of the Company	N/A
Meng Rujing (孟茹靜)	41	Female	June 2016	Independent non-executive Director	10 July 2018	3 years	Providing independent advice on the operations and management of the Company	N/A

Biography of Executive Directors

Wan Zhong (萬眾) Chairperson, Executive Director

Mr. Wan Zhong (萬眾), the general secretary to the Party Committee, chairperson and executive Director of the Company. Mr. Wan has served as the assistant to the general manger of Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司) since December 2017. Mr. Wan has over 22 years of experience in the trust and investment industries. He joined the Company in July 1996 and has successively served positions in the Company, including the manager of departments, the vice general manager and the general manager of the Company from March 2016 to July 2018. In June 2012 to March 2013, he served as the vice general manager in Shandong Lucion Industrial Co., Ltd. and Shandong Lucion Hengji Investment Co., Ltd.. Mr. Wan has also served as the general manager of Shandong Lucion Industrial Co., Ltd. from March 2013 to March 2014, and served as chairperson and director of the same company from September 2013 to March 2016. He served as a director of Lucion Venture Capital Group Co., Ltd. (listed company of Shanghai Stock Exchange (stock code: 600783)) from May 2016 to January 2017. Mr. Wan has been serving as the chairperson of First-Trust Fund Management Co., Ltd. since July 2017. Mr. Wan was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東省經濟專業職務高級評審委員會). He graduated from Shandong Economics Academy (山東經濟學院) (currently known as Shandong University of Finance and Economics (山東財經大學))in the PRC with a bachelor's degree in economics in international trade and obtained his master's degree in management from Tianjin Finance Academy (天津財經學院) in the PRC.

Yue Zengguang (岳增光) Executive Director

Mr. Yue Zengguang (岳增光), the vice secretary to the Party Committee, the executive Director and the general manager of the Company. Mr. Yue has over 25 years of experience in accounting, financial and trust industries. From September 2008 to March 2016, he successively served as the general manager of Planning and Finance Department, the assistant to the general manager, the general manager of Risk Control Department and the Chief Risk Management Officer of the Company. Before joining the Company, he successively worked in Jinan Economic Development Corporation (濟南經濟發展總公司) and Shandong Zhengyuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所). From January 2004 to August 2008, Mr. Yue successively served in Shandong Luxin Industry Group Company (山東魯信實業集團公司) and Lucion Group, primarily handling accounting matters of these companies. He has served as the director (department head) of the office of disciplinary committee (supervision and audit department) of Lucion Group since March 2016 to May 2018. Mr. Yue was accredited as a senior accountant by the High Review Commission of Professional Title in Accounting in Shandong Province (山東省會計專業資格高級評審委員會). He possesses the qualification of PRC certified accountant. Mr. Yue graduated from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)), majoring in accounting, and obtained a master's degree, majoring in business administration, in Tianjin University (天津大學).

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biography of Non-executive Directors

Xiao Hua (肖華) Vice Chairperson of the Board and Non-executive Director

Mr. Xiao Hua (肖華), the Company's Vice-Chairperson of the Board and a non-executive Director of the Company. Mr. Xiao has served as executive director, secretary of the party committee, and the chairperson of the labour union of CNPC Assets Management Co., Ltd., one of the major Shareholders of the Company, the chairperson, executive director and the secretary of the party committee and the chairperson of the labour union of Kunlun Trust since July 2016. Mr. Xiao has approximately 30 years of experience in accounting and management in several subsidiaries of China National Petroleum Corporation. Mr. Xiao had worked in Liaoyang Petrochemical Fibre Company (遼陽石油化纖公司), a state-owned subsidiary of China National Petroleum Corporation, for around 14 years, and served various positions. Mr. Xiao worked in Eastern China Chemical Sales Branch (華東化工銷售分公司) of China National Petroleum Corporation for around 15 years and served various positions, including the deputy general manager, general manager, the general secretary to the Party Committee, and the chairperson of the labour union. Mr. Xiao was accredited as a senior economist (professor level) by China National Petroleum Corporation. Mr. Xiao obtained a bachelor's degree in accounting from Shenyang University of Technology (瀋陽工業大學) in the PRC and a master's degree in business administration from Fudan University (復旦大學) in the PRC.

Jin Tongshui (金同水) Non-executive Director

Mr. Jin Tongshui (金同水), a non-executive Director of the Company. Mr. Jin has over 30 years of experience in the financial industry. From July 1988 to June 1995 and from June 2000 to 2011, he successively served as the project manager as well as the manager of the planning & finance department and the manager of the fund finance department and the risk management department of the Company. From July 1995 to May 2000, he was the finance manager of China Shandong Investment Limited (魯信投資有限公司), a company incorporated in Hong Kong. From January 2012 to December 2014, he served several positions in Lucion Group, including the department chief of its department of property rights management and the department chief of its investment and development department. He served as the chairperson of the board of supervisors of Fullgoal Fund Management Co., Ltd. from 2003 to 2014. He served as the director of Minsheng Securities Co., Ltd. (民生證券股份有限公司), a company principally engaged in securities brokerage and securities investment consulting services, from December 2014 to July 2016. Since December 2014, he has been the chairperson of the board of directors of Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司). He was certified as an accountant by the Ministry of Finance. Mr. Jin graduated from the Department of Finance of Shandong Economics Academy in the PRC, and obtained a bachelor's degree in accounting jointly issued by Beijing Technology and Business University (中國北京工商大學) and China Central Radio and TV Virtual University (中央廣播電視大學) (now known as the Open University of China (國家開放大學)) in the PRC.

Biography of Independent Non-executive Directors

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

Mr. Yen Huai-chiang (顏懷江), an independent non-executive Director of the Company. Mr. Yen has over 12 years of experience in the financial investment and asset management industries. He was accredited as a wealth management advisor (CFP ® practitioner) by Financial Planning Association of Taiwan (FPAT) in 2005. He served as a member and officer of FPAT committee; he was accredited as an International Certified Financial Planner (CFP ® practitioner) by the Financial Planning Standards Board in 2009. He was a special lecturer of the Certified Private Banker programme and the Certified Financial Planner™ Certification Education Program. He served as an associate director of UBS AG and of UBS Securities Co. Limited, where he was primarily responsible for wealth management affairs. Currently, he is the founder of Panhe Family Office (磐合家族辦公室), an institute principally engaged in family wealth management. He obtained a degree of Master of Science in finance from Golden Gate University in the United States and is currently pursuing his doctoral degree in finance in Jinan University (暨南大學) in the PRC.

Ding Huiping (丁慧平) Independent Non- executive Director

Mr. Ding Huiping (丁慧平), an independent non-executive Director of the Company, a professor and doctoral advisor in accounting and head of research centre of competitiveness of enterprises in the PRC of Beijing Jiaotong University. Mr. Ding has more than 15 years of experience working as an independent non-executive director and a member/chairperson of the audit committee of listed companies in the PRC and Hong Kong. Mr. Ding currently serves as an independent non-executive director of Metro Land Corporation Ltd. (listed company of Shanghai Stock Exchange (stock code: 600683) and an independent non-executive director of Huadian Power International Corporation Limited (listed company of Hong Kong Stock Exchange (stock code: 1071) and listed company of Shanghai Stock Exchange (stock code: 600027)). He has served as an independent director of China Merchants Securities Co., Ltd. (listed company of Shanghai Stock Exchange (stock code: 600999)). He has also been serving as an external supervisor of China Merchants Bank Co., Ltd. (listed company of Hong Kong Stock Exchange (stock code: 3968) and listed company of Shanghai Stock Exchange (stock code: 600036)) since June 2016. Mr. Ding obtained his bachelor's degree in engineering from Northeastern University (中國東北大學) in February 1982. He studied in Sweden in 1987, and obtained his associate doctoral degree in industrial engineering in 1991 and a doctoral degree in enterprise economics from Linkoping University in Sweden, and conducted post-doctoral research. After returning to China in 1994, he joined the school of economic management in Northern Jiaotong University (currently renamed as Beijing Jiaotong University) and has worked until now. His research direction is decision-making on investment and financing of corporate finance, corporate economics and innovation management, corporate value management and supply-chain management.

Meng Rujing (孟茹靜) Independent Non- executive Director

Ms. Meng Rujing (孟茹靜), an independent non-executive Director of the Company. Ms. Meng has over 15 years of research and teaching experience in the financial industry and her research areas mainly focuses on including capital markets and investments, real options, corporate finance and risk management. She is a principal lecturer in the Faculty of Business and Economics and a director of the Master of Finance Programme in The University of Hong Kong. Ms. Meng has received a number of teaching awards, including the International MBA Teaching Award jointly granted by The University of Hong Kong and Fudan University in 2014, Teaching Excellence Award granted by the University of Hong Kong in 2017 as well as the Teaching Awards and the Outstanding Teacher Awards granted by the Faculty of Business and Economics of The University of Hong Kong in 2006, 2012 and 2017, respectively. Ms. Meng majored in finance and obtained her bachelor's degree in management from Guanghua School of Management of Peking University in the PRC and obtained her degree of Ph.D. in finance from Fuqua School of Business in Duke University in the United States.

Supervisors

Name	Age	Gender	Date of joining/rejoining our Company	Position	Date of appointment for the session	Tenure	Roles and responsibilities	Name of Shareholders nominated
Guo Shougui (郭守貴)	54	Male	10 July 2018	Chairperson of the Board of Supervisors	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	Shandong High-Tech Venture Capital Co., Ltd.
Hou Zhenkai (侯振凱)	37	Male	May 2016	Supervisor	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	Lucion Group
Chen Yong (陳勇)	45	Male	September 2014	Supervisor	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	CNPC Assets Management
Wu Chen (吳晨)	44	Male	May 2015	Supervisor	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	Shandong Gold Group Co., Ltd.
Wang Zhimei (王志梅)	39	Female	10 July 2018	Supervisor	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	Weifang Investment Group Co., Ltd.
Guan Wei (官偉)	42	Male	June 2017	Supervisor	10 July 2018	3 years	Supervising the performance of duties by the Directors and senior management	Jinan Energy Investment Co., Ltd.
Tian Zhiguo (田志國)	46	Male	May 2005	Supervisor	25 May 2018	3 years	Supervising the performance of duties by the Directors and senior management	N/A
Zuo Hui (左輝)	48	Male	December 1996	Supervisor	25 May 2018	3 years	Supervising the performance of duties by the Directors and senior management	N/A
Li Aiping (李愛萍)	47	Female	April 2015	Supervisor	25 May 2018	3 years	Supervising the performance of duties by the Directors and senior management	N/A

Biography of Supervisors

Guo Shougui (郭守貴) Chairperson of the Board of Supervisors

Mr. Guo Shougui (郭守貴), Supervisor of the Company and chairperson of the Board of Supervisors. He has served as chairperson of the board of supervisors of a subsidiary of Shandong Luxin Investment Holdings Group Co., Ltd. since December 2017. From March 1991 to June 2015, Mr. Guo successively served as deputy director and director of the General Division of Shandong Economic and Trade Commission, deputy director and Party Committee member of Rizhao City Economic and Trade Commission, deputy head of Transportation Division of Shandong Economic and Trade Commission, person in charge and deputy head of Shandong SASAC Statistical Evaluation and Performance Review Division, researcher level supervisor of Shandong Province-ran Enterprises Supervisory Board, supervisor of Yankuang Group Company Limited (兗礦集團有限公司), supervisor of Shandong Business Group Company Limited (山東省商業集團有限公司) and supervisor of Shandong Energy Group Company Limited (山東能源集團有限公司). He served as Party Committee member and a secretary of the commission for discipline inspection of Shandong Petroleum and Natural Gas Development Corporation from June 2015 to December 2017, and Party Committee member and a secretary of the commission for discipline inspection of Shandong Oil and Gas Company Limited from March 2016 to December 2017. He has served as a supervisor of the Audit Society of Shandong Province since April 2018, and the chairperson of the board of supervisors of Luxin Venture Capital Group Co., Ltd. (listed company of Shanghai Stock Exchange, (stock code: 600783)) since April 2018. Mr. Guo was certified as a Certified Senior Enterprise Risk Manager (CSERM) by the Asia Association of Risk and Crisis Management (亞洲風險與危險管理協會) in 2014. Mr. Guo obtained a bachelor's degree in accounting from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)) and a master's degree in business administration from Shandong University in the PRC (中國山東大學) in December 2013.

Hou Zhenkai (侯振凱) Supervisor

Mr. Hou Zhenkai (侯振凱), a Supervisor of the Company. He has over ten years of experience in the legal and compliance area. Before joining the Company, he was a lawyer in the Qingdao office of King & Wood Mallesons. He has been serving in the risk and compliance department of Lucion Group since January 2013 and has been serving as the deputy department chief since March 2016, where he was primarily responsible for the legal affairs of the company. He has also been serving as the supervisor of Shandong Zhonglu Oceanic Fishery Company Limited (山東省中魯遠洋漁業股份有限公司), (listed company of Shenzhen Stock Exchange (stock code: 200992)), from May 2016 to January 2019. Mr. Hou has served as a director of Luxin Venture Capital Group Co., Ltd. (a listed company of Shanghai Stock Exchange, (stock code: 600783)) since March 2018. Mr. Hou was qualified to trade in securities by Securities Association of China and to trade in funds by Asset Management Association of China. Mr. Hou graduated from Jilin University in the PRC with a bachelor's degree in law and obtained his master's degree in civil and commercial law from Shandong University in the PRC.

DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Chen Yong (陳勇) Supervisor

Mr. Chen Yong (陳勇), a Supervisor of the Company. He has over 19 years of experience in the financial industry. Prior to joining our Company, Mr. Chen served in different departments in China National Petroleum Xinjiang Sales Company (中國石油新疆銷售公司), including the general office and the finance and audit department of the company. He then served as the deputy division chief of the finance division and the division chief of the corporate management division of China National Petroleum Xinjiang Sales Company. He has been serving as the general manager of the equity investment department of Kunlun Trust since September 2010 and the division chief of CNPC Assets Management Co., Ltd. since February 2011, in which he is primarily responsible for the day-to-day management of the equity investment affairs of the companies. Mr. Chen was accredited as a senior accountant by China National Petroleum Corporation. He graduated from Xinjiang University (中國新疆大學) in the PRC with a bachelor's degree in computer application and obtained his master's degree in business administration from Xinjiang University of Finance and Economics (中國新疆財經大學) in the PRC.

Wu Chen (吳晨) Supervisor

Mr. Wu Chen (吳晨), a Supervisor of the Company. He has over 18 years of experience in the financial industry. Mr. Wu served in the PBOC Jinan Branch, including as its deputy chief clerk. He also served as the section chief, the deputy division chief and the supervisory research analyst in the Shandong Office of CBRC, consecutively. He served as the general manager of Shandong Gold Group Finance Co., Ltd. (planned) (山東黃金集團財務有限公司(籌)) in December 2012, and has been serving as the general manger and the director of Shandong Gold Group Finance Co., Ltd. since July 2013. Mr. Wu was accredited as a senior economist by the Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳). He is a project investment evaluation expert of the Council of Social Security Fund of Shandong Province (山東省社會保障基金理事會). Mr. Wu graduated from Shandong University in the PRC with a bachelor's degree in international economics. He also obtained his master's degree in political science and economics from Shandong University in the PRC.

Wang Zhimei (王志梅) Supervisor

Ms. Wang Zhimei, a Supervisor of the Company. She has served as the head of risk management department of Weifang Guowei Huijin Investment Co., Ltd. since September 2016. She has over 13 years of experience in financial and investment industry. From September 2005 to January 2009, she served as a staff of Weifang Wanfeng International Trading Co., Ltd. From January 2009 to September 2016, she served as a staff of business department and risk management department of Weifang Credit Financing Guarantee Co., Ltd. Ms. Wang graduated from Shandong University of Technology with a bachelor's degree in international trade. She also obtained a master's degree in international economics and trade from Xiamen University.

Guan Wei (官偉) Supervisor

Mr. Guan Wei (官偉), a Supervisor of the Company. Mr. Guan has been serving as the deputy general manager of Jinan Energy Investment Co., Ltd. since August 2016. Mr. Guan has also been the deputy general manager of Jinan Economics and Trading Industrial Investment Corporation (濟南經貿實業投資總公司), since December 2012. Mr. Guan has over 20 years of experience in engineering. Mr. Guan joined Jinan Energy Investment Co., Ltd. in July 1998, and has served in various positions since then, including an engineer and the director of general office. Mr. Guan also worked as the assistant to the general manager in Jinan Jihua Mansion Operation and Management Co., Ltd. (濟南吉華大廈運營管理有限公司) from November 2009 to December 2012. Mr. Guan was accredited as an engineer by Jinan Engineering and Technology Service Intermediate Review Committee (濟南市工程技術服務中級評審委員會). Mr. Guan was awarded a third-class merit by the Jinan municipal government and was honoured as the "advanced individual" in November 2009. Mr. Guan graduated from Xi'an Jiaotong University (西安交通大學) in the PRC majoring in thermal engineering, and obtained a bachelor's degree in accounting from Shandong Finance College (山東財政學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC. Mr. Guan graduated from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC with a master's degree majoring in business administration.

Tian Zhiguo (田志國) Supervisor

Mr. Tian Zhiguo (田志國), an employee representative Supervisor of the Company. He has over 13 years of experience in the financial and trust industries. He joined our Company in July 2005 and served successively as the project manager and vice general manager of the fifth division of trust and the general manager of the fifth division of trust since October 2014. Prior to joining the Company, Mr. Tian worked in the Electronic Economic Trading Center of Shandong Province (山東省電子經濟貿易中心). He graduated from Shandong University in the PRC with a master's degree in law.

Zuo Hui (左輝) Supervisor

Mr. Zuo Hui (左輝), an employee representative Supervisor of the Company. He is currently the deputy manager of the legal and compliance department of the Company. He has over 21 years of experience in the legal and compliance area of the financial industry. Since he joined the Company in December 1996, Mr. Zuo worked for the legal department, the fund management department and the risk control department of the Company. From March 2015 to May 2018, he served as the deputy manager of the compliance and legal department. Before joining the Company, he was an in-house counsel in the Shandong Film and Television Legal Department (山東省影視律師事務部). Mr. Zuo graduated from Beijing Union University (北京聯合大學) in the PRC with a bachelor's degree in law. He obtained his master's degree in law from China University of Political Science and Law (中國政法大學) in the PRC.

Li Aiping (李愛萍) Supervisor

Ms. Li Aiping (李愛萍), an employee representative Supervisor of the Company. Ms. Li is currently the office manager of the Party Committee and the discipline inspection committee of the Company. She has over 14 years of experience in human resources management. From May 2015 to May 2018, she has been the deputy chief to the Communist Party Committee and disciplinary committee of our Company. Prior to joining our Company, she worked in the 26th group army of the Jinan Military Region in the PRC, and was also an officer in the Job Transferring Office of the Political Department of Military Region in Shandong Province (山東省軍區政治部轉業辦). She worked at the human resources department of Lucion Group. She holds a certification of senior human resources professional granted by the Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in August 2008. Ms. Li graduated from the industrial and commercial department of Shandong Economics Academy in the PRC, majoring in trade economics and also obtained a bachelor's degree in law from Jinan Army Academy (濟南陸軍學院) in the PRC.

Senior management

Name	Age	Gender	Date of joining/ rejoining our Company	Position	Date of appointment	Roles and responsibilities
Yue Zengguang (岳增光)	45	Male	September 2008 to March 2016, rejoined in May 2018	General Manager	3 September 2018	Day-to-day overall management and operations of our Company
Zhou Jianqu (周建蕖)	46	Female	January 1999	Vice General Manager	26 October 2011	Assisting the General Manager with the day-to-day management of the business operations of our Company
He Chuangye (賀創業)	43	Male	October 2015	Vice General Manager, Secretary to the Board and Joint Company Secretary	7 April 2016	Securities affairs, research and development and international business
Ma Wenbo (馬文波)	46	Male	November 2013	Chief Financial Officer	24 July 2014	Finance and accounting, operating custodian and related matters of proprietary business of our Company
Fu Jiguang (付吉廣)	50	Male	May 2001	Chief Risk Management Officer	27 July 2016	Compliance and risk management, financial investment business and other matters of the operations and investment of our Company
Niu Xucheng (牛序成)	43	Male	July 2003	Vice General Manager	13 April 2018	Assisting the general manager to manage the daily business operations of the Company

Biography of senior management

Yue Zengguang (岳增光) General Manager

Mr. Yue Zengguang (岳增光), is the General Manager of our Company, responsible for the day-to-day overall management and operations of our Company. 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 has served as the General Manager of the Company upon appointment by the Board of the Company. The qualification of Mr. Yue to hold the office as the General Manager was approved by the Shandong Office of the CBRC on 30 September 2018. 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. Please see "Biography of Executive Directors" for his biography.

Zhou Jianqu (周建蕖) Vice General Manager

Ms. Zhou Jianqu (周建蕖), the Vice General Manager of our Company. Ms. Zhou has been the chairperson of Zhongyue Capital Management Co., Ltd. (中閱資本管理股份公司) since March 2017. Ms. Zhou has over 20 years of experience in the financial and trust industries. She joined our Company in January 1999. She served in the securities department and then in the trust investment banking department of our Company, consecutively. She then served as the project manager, the operation manager, the deputy manager and the manager in the fund trust department of our Company. She served as the manager in the fifth division of trust in our Company. Prior to joining our Company, she served in Jinan Kuaixin Industrial Group Company Limited (濟南快信實業集團公司). She also served in Shandong Enterprise Property Right Exchange (山東企業產權交易所). Ms. Zhou was accredited as an intermediate economist by the Ministry of Human Resources of the PRC. She was granted qualifications to trade in securities by Securities Association of China, to trade in funds by Asset Management Association of China and to trade in futures by China Futures Association. Ms. Zhou has been a member of the Finance and Economics Committee of the 18th People's Congress of Lixia District, Jinan (濟南市歷下區第十八屆人民代表大會財政經濟委員會) since February 2017. Ms. Zhou studied in the department of mechanical engineering and obtained her bachelor's degree in engineering from Beijing Light Industry Academy (北京輕工業學院) in the PRC. She obtained her master's degree in business administration from Shandong Economics Academy in the PRC.

He Chuangye (賀創業) Vice General Manager, the Secretary to the Board and Joint Company Secretaries

Mr. He Chuangye (賀創業), a member of the Party Committee, Vice General Manager of our Company, the secretary to the Board and one of our joint company secretaries. He was appointed as the vice general manager and the secretary to the Board on 7 April 2016 and 27 July 2016, respectively. Mr. He has over 19 years of experience in the financial industry. Prior to joining our Company, Mr. He served several positions in the financial supervisory institutions in China, including a clerk in the PBOC Jinan Branch. He then successively served in the Shandong Office of CBRC as the clerk, the deputy chief clerk, the chief clerk, the section chief, the deputy director of the general office and the deputy division chief in its Non- banking Financial Institution Regulatory Division (非銀行金融機構監管處). He also served a temporary post as the deputy chief secretary of Yantai City Government. Mr. He was granted the certificate of intermediate economist by the Ministry of Personnel of the PRC. Mr. He obtained a bachelor's degree in economics from Zhengzhou University in the PRC and a master's degree in finance from the University of Hong Kong in Hong Kong.

Ma Wenbo (馬文波) Chief Financial Officer

Mr. Ma Wenbo (馬文波), the Chief Financial Officer. Mr. Ma has over 21 years of experience in accounting. He was approved to serve as our Chief Financial Officer by the Board in November 2013. He served in China National Electronics Import and Export Shandong Co. Ltd. (中國電子進出口山東公司), primarily responsible for the accounting matters of the company. He then served as the manager of the finance department in Shandong Today's Coffee Company Limited (山東今日咖啡有限公司). He served in Shandong Lucion Industrial Co., Ltd. and Lucion Group, consecutively, primarily responsible for the accounting matters of the companies. He has been serving as a director in Shandong HOWO Automotive Finance Co., Ltd. (山東豪沃汽車金融有限公司) since April 2015 to May 2018. Mr. Ma served as a director in Jinding Leasing Co., Ltd. (金鼎租賃有限公司). Mr. Ma was accredited as a senior accountant by the Senior Review Committee of Accounting Professional Qualifications of Shandong Province (山東省會計專業資格高級評審委員會) and has been a PRC certified public accountant accredited by the Association of Certified Public Accountants of Shandong Province (山東省註冊會計師協會). Mr. Ma graduated from Shandong Finance Academy (山東財政學院) (currently known as Shandong University of Finance and Economics) in the PRC with a bachelor's degree in accounting.

Fu Jiguang (付吉廣) Chief Risk Management Officer

Mr. Fu Jiguang (付吉廣), a member of the Party Committee and the Chief Risk Management Officer of our Company. He has over 26 years of experience in the trust and financial industries. He joined our Company in May 2001 and served as the operation manager of the investment banking operations department, the deputy manager of the investment banking department and the manager of the audit and legal department of our Company. Mr. Fu served as the chief financial officer of Shandong Zhonglu Oceanic Fisheries Co., Ltd. (listed company of Shenzhen Stock Exchange (stock code: 200992)). He served as the manager of the fourth division of trust. Before joining our Company, he served in the investment department of Jining Trust Investment Company Limited (濟寧市信託投資公司). He also served as the director and the vice general manager of Jining Liuzhuang Port Transportation Company Limited (濟寧市留莊港運輸總公司), where he was primarily responsible for the day-to-day management of the company. He was the director of Jinan Luban Bairong Properties Company Limited (濟南魯班百融置業有限公司) and has been serving as the director of Qihe County Jiqi Yellow River Bridge Management Company Limited (齊河縣濟齊黃河大橋經營管理有限公司) since October 2015. Mr. Fu was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東經濟專業職務高級評審委員會). He obtained his bachelor's degree in industrial economics and his master's degree in corporate management from Shandong Economics Academy in the PRC, now known as Shandong University of Finance and Economics.

Niu Xucheng (牛序成) Vice General Manager

Mr. Niu Xucheng, deputy general manager of the Company. He has served as the deputy general manager of the Company since April 2018. Mr. Niu has over 16 years of experience in the trust industry. He joined the Company in July 2003, and successively worked for the fund investment department, the loan management department of China Development Bank, fund trust department and the first trust business department. From April 2012 to May 2018, he successively served as the deputy general manager of the trust business and the general manager of the trust business. Before joining the Company, he served as a member of the Qingdao Jiaozhou Municipal Committee of the Communist Youth League of China. Mr. Niu was appraised as an intermediate economist by the Ministry of Personnel of the People's Republic of China. He received the qualification of securities professional and fund trading professional issued by the Securities Association of China and the Asset Management Association of China, and received the qualification of futures trading professional issued by the China Futures Association. He obtained a master's degree in finance from the Shandong Finance College (currently known as Shandong University of Finance and Economics) in 2003.

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

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes of Directors

Ms. Wang Yingli, the former executive Director and chairperson of the Company, 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 chairperson of the Business Decision Committee, and the chairperson of 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 chairperson of the Company by the Board on 10 July 2018, and his qualification to act as the chairperson has been approved by the Shandong Office of CBRC and took effect from 9 January 2019.

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. Mr. Jin Tongshui was appointed as a member of the Remuneration Committee.

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, the Business Decision Committee and the Strategies and Risk Management Committee 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, ceased 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.

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 of the Company 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.

Annual Remuneration

Please refer to "Emoluments of Directors, Supervisors and the Highest Paid Individuals" as in Note 13 to the consolidated financial statements for details of the remuneration of Directors, Supervisors and senior management of the Company.

For the year ended 31 December 2018, we did not pay any remuneration to our non-executive Directors who were nominated by our Shareholders to take up the directors' position in the Company because these non-executive Directors had been remunerated by our Shareholders directly for their service as our Director, being part of their job responsibilities of their working with our Shareholders.

Save as disclosed in this annual report, no other amounts have been paid or are payable by the Company to our Directors and Supervisors for the year ended 31 December 2018.

No remuneration was paid by the Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as a compensation for loss of office in respect of the year ended 31 December 2018. Furthermore, none of our Directors nor Supervisors waived or agreed to waive any remuneration during the same period.

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

CORPORATE GOVERNANCE

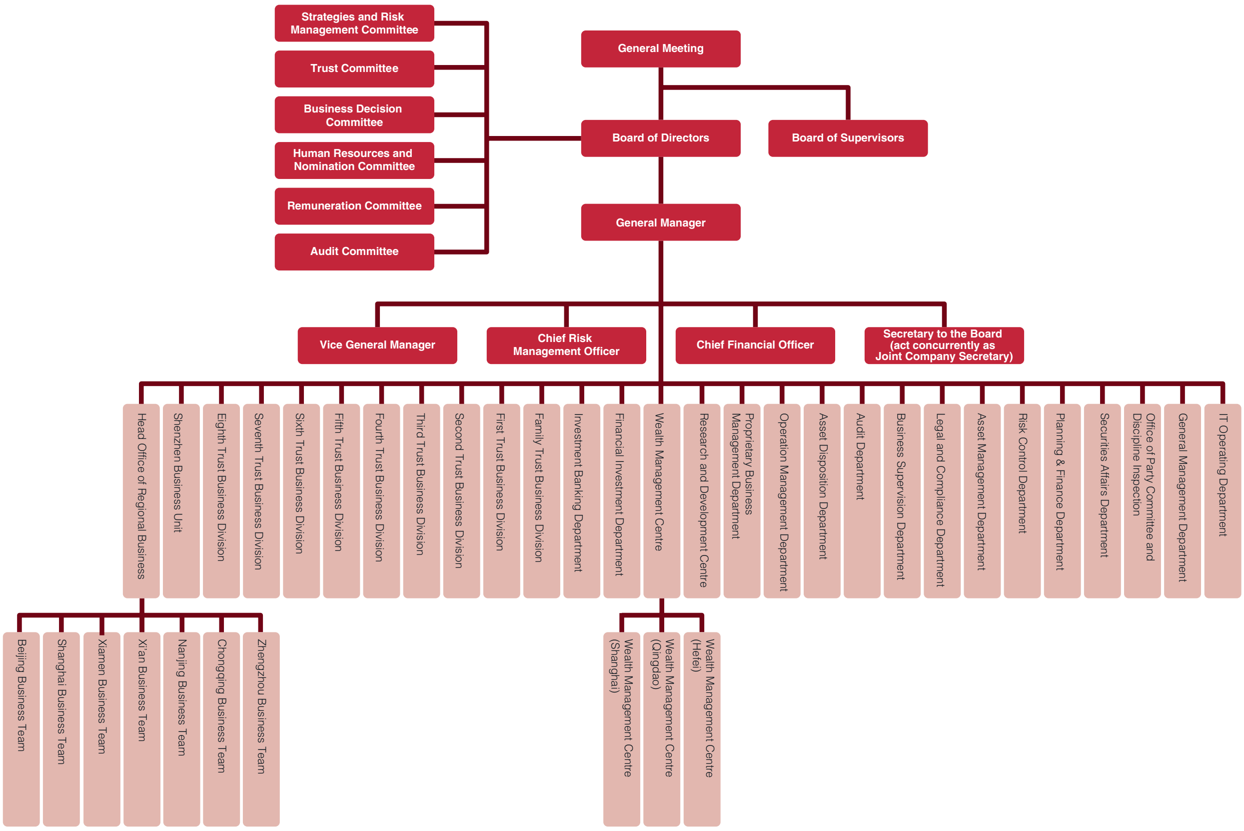
During the Reporting Period, the Company persistently raised the transparency of corporate governance so as to safeguard the interests of the Shareholders and enhance the corporate value.

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

CORPORATE GOVERNANCE CODE

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

CORPORATE GOVERNANCE STRUCTURE



RESPONSIBILITIES OF THE BOARD

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

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times. The Company has arranged appropriate insurance coverage in respect of liability arising from legal actions against its Directors, and will conduct annual review of the scope of such insurance coverage.

COMPOSITION OF THE BOARD

As at 31 December 2018, the Board comprised seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

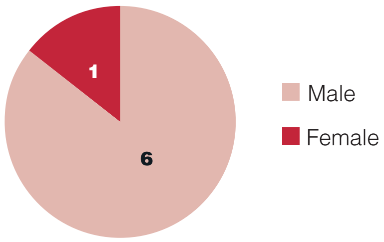
During the Reporting Period, the Board has complied with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one possessing appropriate professional qualification or accounting or related financial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

Each of the independent non-executive Directors has confirmed his/her independence during the year ended 31 December 2018 pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

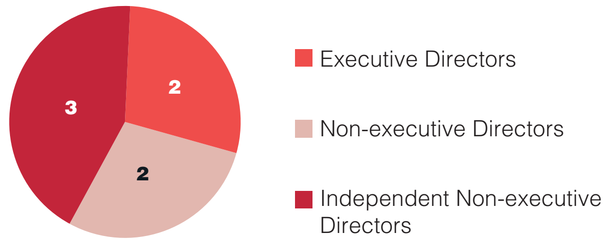
DIVERSITY OF THE BOARD

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

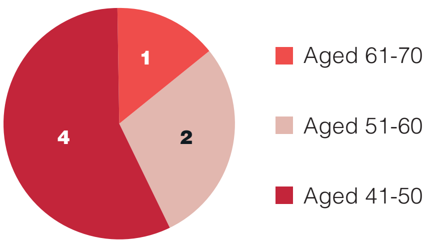
As at the date of this annual report, the analysis on the composition of the Board is as follows:



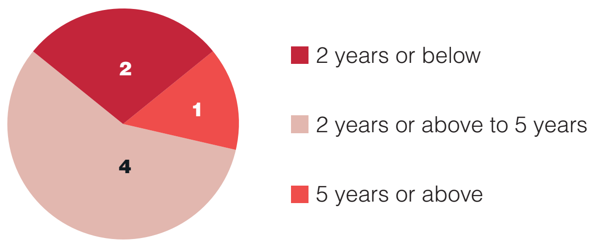
Gender



Position



Age



Term of service (years)

FUNCTIONS AND POWERS OF THE BOARD OF DIRECTORS

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

(1) to convene general meetings and to report its work to the general meetings;

(2) to implement the resolutions of the general meetings;

(3) to decide on the operation plans and investment plans of the Company;

(4) to formulate the annual financial budgets and final accounts of the Company;

(5) to formulate the profit distribution plans and loss recovery plans of the Company;

(6) to formulate proposals for the increase or reduction of the registered capital of the Company;

(7) to prepare proposals for the material acquisition, repurchase of the shares of the Company or merger, division, dissolution or change of corporate form of the Company;

(8) to formulate proposals for the issuance of corporate bonds, any types of shares, warrants or other marketable securities and listing;

(9) to decide on the establishment of internal management departments of the Company and the establishment or revocation of the branches and other sub-branches of the Company;

(10) to elect the chairperson and vice chairperson of the Board of the Company;

(11) to appoint or dismiss the general manager of the Company and secretary to the Board pursuant to the nominations by the chairperson of the Board of the Company; to appoint or dismiss vice general manager, chief financial officer and other senior management members of the Company pursuant to the nominations by the general manager and to decide on their remunerations, incentives and punishments;

(12) to formulate the basic management system of the Company and terms of reference of all special committees under the Board;

(13) to prepare proposals for amendments to the Articles of Association, Procedural Rules for the Shareholders' General Meeting and Procedural Rules for the Board;

(14) to formulate the share incentive schemes of the Company;

(15) to manage the matters in relation to the information disclosure of the Company;

(16) to decide on the establishment of special committees and to elect their members;

(17) to decide on the risk management system of the Company which covers risk assessments, financial control, internal audit and legal risk control and monitor its implementation;

(18) to propose the appointment or replacement of the accounting firm that provides the Company with auditing services for annual financial statements to the general meeting, and decide on its audit fees;

(19) to listen to the regular or non-regular work reports from the general manager of the Company or the senior management members of the Company appointed by the general manager, and to approve the work reports of the general manager;

(20) to consider and approve the major financial accounting policies and changes to accounting estimates;

(21) to decide on the staffing arrangement, proposals on remuneration and performance appraisal of the senior management members;

(22) to consider the material equity investments, bond investments, acquisition of assets, disposal of assets, write off of assets and external guarantee and other transaction matters in the proprietary business except for those which shall be approved by the general meetings in accordance with the Articles of Association;

(23) to consider the material related party transactions which shall be approved by the Board pursuant to laws, regulations and listing rules of the place where the securities of the Company are listed; and

(24) to exercise other functions and powers conferred by laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, the general meetings and the Articles of Association.

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

A summary of training received by Directors for the year ended 31 December 2018 according to the records provided by the Directors is as follows:

Name of Director	**Nature of Programme of Continuous Professional Development**
Executive Directors	
Wan Zhong	C D
Yue Zengguang	C D
Non-executive Directors	
Xiao Hua	C D
Jin Tongshui	C D

Independent Non-executive Directors	
Yan Huaijiang	A B C D
Ding Huiping	C D
Meng Rujing	A B C D
Resigned Director	
Wang Yingli	C D

Notes:

A: attending seminars and/or meetings and/or forums and/or briefings

B: giving speeches at seminars and/or meetings and/or forums

C: attending trainings provided by lawyers or trainings related to the Company's business

D: reading materials on different topics, including corporate governance, responsibilities of directors, Listing Rules and other relevant laws

Chairperson and General Manager

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

As Ms. Wang Yingli and Mr. Wan Zhong ceased to serve as an executive Director and the chairperson and the general manager of the Company, respectively, due to the expiry of their term of office since 10 July 2018, Mr. Wan Zhong has been the acting chairperson since the same date. 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. As the positions of chairperson and general manager of the Company were assumed by different persons, code provision A.2.1 of the Corporate Governance Code has been satisfied.

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.

Appointment and Re-election of Directors

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

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

(1) a candidate for the position of Director shall be nominated by way of putting forward a proposal by the Board or the Shareholders individually or jointly holding 5% or more of the total number of shares carrying voting rights issued by the Company, and the basic information, biographies and other written materials shall be attached thereto;

(2) for candidates nominated by the Board, the Human Resources and Nomination Committee of the Board shall conduct preliminary review on the qualifications for such positions and conditions of the candidates for the position of Director, and propose competent candidates to the Board for consideration; upon consideration and approval by the Board, the candidates for the position of Director shall be proposed to the general meeting by way of written proposal;

(3) the candidates for the position of Director shall make written commitments before the convening of general meeting that they agree to accept the nomination, undertake that the information publicly disclosed is true and complete, and warrant to fulfill the duties of Directors with due diligence once elected; The written notice of intention to nominate a person for the position of Director and the written notice by such person of his/her willingness to accept the nomination and relevant written materials with information of the nominee, shall be sent to the Company at least ten days prior to the convening of the general meeting;

(4) the Company shall, before convening the general meeting, disclose detailed information of the candidates for the position of Director to Shareholders according to laws, regulations and the Articles of Association in order to ensure that Shareholders could have sufficient knowledge of the candidates when casting their votes;

(5) the Company shall give at least seven days for relevant nominators and candidates for the post of Director for submission of the notice and materials set forth as above (such period shall be calculated from the day following the issue date of the notice of general meeting); and

(6) the general meeting shall vote on the proposals on each candidate one by one.

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

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

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

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

Board Meetings

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

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

(1) joint request of more than one-third of the Directors;

(2) request of the Board of Supervisors;

(3) request of more than one half of the independent Directors;

(4) when the Chairperson of the Board deems necessary;

(5) request in writing by Shareholders who hold 10% or more of the shares with voting rights of the Company;

(6) request of the General Manager; and

(7) other circumstances as stipulated in the Articles of Association.

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

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

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

During the Reporting Period, the Board held 9 Board meetings and convened 3 general meetings 1 domestic shareholders class meeting and 1 H shareholders class meeting. Attendance of the Directors attending Board meetings and general meetings is set out in the following table:

Director	Number of Board meetings attended/ number of attendance in Board meetings required	Number of general meetings attended/ number of attendance in general meetings required
Executive Directors		
Wan Zhong	9/9	3/3
Yue Zengguang	5/5	1/1
Non-executive Directors		
Xiao Hua	9/9	2/3
Jin Tongshui	9/9	3/3
Independent non-executive Directors		
Yen Huai-chiang	9/9	3/3
Ding Huiping	9/9	3/3
Meng Rujing	9/9	3/3
Resigned Director		
Wang Yingli	3/3	1/2

Notes:

(1) Attendance in meetings includes on-site attendance and attendance by way of telephone and video.

(2) Please refer to "Change of Directors" of "Changes of Directors, Supervisors and Senior Management" for the changes of Directors.

Model Code for Conducting Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for its Directors and Supervisors to conduct securities transactions. Upon specific enquiries made by the Company to all of the Directors and Supervisors, each of the Directors and Supervisors has confirmed that they had complied with the required standard as set out in the Model Code throughout the period from 1 January 2018 to 31 December 2018.

Throughout the period from 1 January 2018 up to 31 December 2018, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard as set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

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

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

Corporate Governance Function

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

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

BOARD COMMITTEES

Audit Committee

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

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

(1) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any issues of their resignation or dismissal;

(2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditors the nature and scope of the audit and the reporting obligations before the audit commences;

(3) to formulate and implement policy on the provision of non-audit services by the external auditors. For this purpose, "external auditor" includes any institution that is under common control, ownership or management with the auditor or any institution that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the domestic or international business of such auditor. The audit committee shall report to the Board and advise on any matters where action or improvement is needed;

(4) to monitor the integrity, accuracy and fairness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant opinions on financial reporting as set out therein. In reviewing the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental issues;

(iii) significant adjustments resulting from audit;

(iv) the assumption of going concern of the Company and any qualified opinions;

(v) whether compliance with accounting standards; and

(vi) whether compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.

(5) regarding paragraph (4) above:

(i) members of the Audit Committee shall liaise with the Board and the senior management members of the Company. The Audit Committee shall meet at least twice a year with the Company's external auditors; and

(ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(6) to review the Company's financial control, and unless expressly addressed by a separate risk control and audit committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;

(7) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish and maintain effective systems. Such discussion shall consider the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

(8) to examine major investigation findings on risk management and internal control matters and the management's response to these findings on its own initiative or as authorised by the Board;

(9) to ensure coordination between the internal and external auditing bodies and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to examine and monitor the effectiveness of the internal audit function;

(10) to review the Group's financial and accounting policies and practices;

(11) to review the external auditors' letters to the management on audit results, any material queries raised by the auditors to the management about accounting records, financial accounts or control system and the management's response;

(12) to ensure that the Board will provide a timely response to the issues raised in the external auditors' letter to the management on audit results;

(13) to report to the Board on the matters included under the section headed "Audit Committee" in Appendix 14 to the Listing Rules;

(14) the Audit Committee shall handle the following issues:

(i) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and appropriate follow-up action taken by the Company;

(ii) the Audit Committee shall establish a whistleblowing policy and system for employees and other persons who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;

(15) to act as the key representative body for overseeing the relationship between the Company and the external auditors; and

(16) any other matters as authorised by the Board.

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

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

Name of Director	Number of meetings attended/ number of attendance required
Mr. Ding Huiping *(Chairperson)*	4/4
Mr. Jin Tongshui	4/4
Ms. Meng Rujing	4/4

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

Human Resources and Nomination Committee

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

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

(1) to carry out regular review at least once each year in respect of the structure, size and composition (including the aspects of skills, knowledge and experience) of the Board, and to make recommendations with regard to any proposed changes made to the Board in line with the Company's strategies;

(2) to identify individuals with suitable qualifications for senior management position other than directorship, general manager or the secretary to the Board, and to select and nominate such individuals for senior management roles other than directorship, general manager or the secretary to the Board or to advise the Board in respect thereof;

(3) to assess the independence of independent Directors;

(4) to make recommendations to the Board on matters in relation to the appointment or reappointment of Directors and succession planning for Directors (in particular, the Chairperson of the Board and the General Manager); and

(5) any other matters as authorised by the Board.

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

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

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

Director	**Number of meetings attended/ number of attendance required**
Mr. Wan Zhong *(Chairperson)*	1/1
Mr. Ding Huiping	4/4
Ms. Meng Rujing	4/4
Ms. Wang Yingli *(former Chairperson)*	3/3

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

Remuneration Committee

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

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

(1) to make recommendations to the Board on the remuneration policy and structure for all Directors and senior management members and on the establishment of a formal and transparent procedure for formulating the remuneration policy;

(2) to assess the performance of duties of the Directors and senior management members of the Company, and to appraise and access their performance;

(3) to supervise the implementation of the Company's remuneration system;

(4) to review and approve the remuneration proposals for senior management members with reference to the corporate guidelines and objectives formulated by the Board;

(5) to make recommendations to the Board on the specific remuneration packages of certain executive Directors and senior management members, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);

(6) to make recommendations to the Board on the remuneration of the non-executive Directors;

(7) to consider salaries paid by comparable companies, time commitment and duties and employment conditions elsewhere in the Group;

(8) to review and approve compensation payable to executive Directors and senior management members for loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair, reasonable and not excessive;

(9) to review and approve arrangement of compensation payable to Directors for termination of or removal from office due to misconduct to ensure that it is consistent with contractual terms and is otherwise reasonable and appropriate;

(10) to ensure that no Director or any of his/her associates (as defined under the Listing Rules) is involved in determining his/her own remuneration;

(11) to consult with the Chairperson of the Board and/or General Manager about the remuneration proposals for other executive Directors; and

(12) any other matters as authorised by the Board.

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

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

Name of Director	**Number of meetings attended/ number of attendance required**
Ms. Meng Rujing *(Chairperson)*	3/3
Mr. Jin Tongshui	1/1
Mr. Yen Huai-chiang	3/3
Mr. Wan Zhong *(former member)*	2/2

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

Business Decision Committee

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

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

(1) to examine and approve collective fund trust business submitted by the General Manager's Office Meeting;

(2) to examine and approve significant individual fund trust business that the General Manager's Office Meeting considers necessary;

(3) to examine and approve specific loan projects of proprietary funds of the Company;

(4) to examine and approve disposal plans of projects at risk invested by collective trusts of the Company or individual trusts that the General Manager's Office Meeting considers necessary;

(5) to submit annual work report to the Board; and

(6) other duties authorised by the Board.

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

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

Name of Director	Number of meetings attended/ number of attendance required
Mr. Wan Zhong *(Chairperson)*	73/73
Mr. Jin Tongshui	73/73
Mr. Yue Zengguang	21/21
Ms. Wang Yingli *(former Chairperson)*	42/42

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

Strategies and Risk Management Committee

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

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

(1) to research and propose recommendations on medium and long-term development strategies of the Company according to the macro-economic environment, trend of industry development and the operating position of the Company;

(2) to inspect, supervise and evaluate the implementation of the development strategy of the Company;

(3) to organise and formulate special plans for development of trust business and proprietary business of the Company;

(4) to understand and master the major risks faced by the Company and its risk management status;

(5) to consider the annual or special risk management reports of the Company;

(6) to review the soundness of the risk management mechanism of the Company, effectiveness of the policies and measures, and rationality of the risk control process;

(7) to consider the risk strategies and major risk management solutions, as well as criteria or mechanism for judgment of major decisions, major risks, major events and important business flow;

(8) to review and supervise the compliance and implementation of laws and regulations of the Company;

(9) to provide advice and recommendations for risk prevention and control of the trust business of the Company; and

(10) other duties as stipulated by the Board.

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

During the Reporting Period, attendance of each member of the Strategies and Risk Management Committee attending committee meetings is set out in the following table.

Name of Director	Number of meetings attended/ number of attendance required
Mr. Wan Zhong *(Chairperson)*	1/1
Mr. Xiao Hua	1/1
Mr. Yue Zengguang	0/0
Ms. Wang Yingli *(former Chairperson)*	1/1

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

Trust Committee

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

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

(1) to examine the due payment of trust business of the Company and the realisation of the interests of beneficiaries;

(2) to supervise the management and utilisation of collective trust properties;

(3) to conduct regular evaluation for operation of the trust business of the Company and provide advice and suggestions for the development of trust business of the Company;

(4) to consider specific measures for protecting the interests of the beneficiaries when the interests of the Company or Shareholders conflict with those of beneficiaries, and urge the Company to perform its entrusted duties according to laws;

(5) to consider the conditions of protecting the interests of consumers of the Company; and

(6) other duties stipulated by the Board.

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

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

Name of Director	Number of meetings attended/ number of attendance required
Mr. Yen Huai-chiang *(Chairperson)*	1/1
Mr. Ding Huiping	1/1
Mr. Yue Zengguang	0/0
Mr. Jin Tongshui *(former member)*	1/1

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

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

For details about the remuneration of Directors, Supervisors and five highest paid individuals of the Company, please refer to Note 13 to the consolidated financial statements.

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

	Number of individuals Year ended 31 December	
	2018[(2),(3)]	2017[(1),(2)]
RMB500,000 and below		2
RMB500,001 – RMB1,000,000	**1**	
RMB1,000,001 – RMB1,500,000		
RMB1,500,001 – RMB2,000,000	**1**	1
RMB2,000,001 – RMB2,500,000	**1**	
RMB2,500,001 – RMB3,000,000		1
RMB3,000,001 – RMB3,500,000		
RMB3,500,001 – RMB4,000,000	**1**	
RMB4,000,001 – RMB4,500,000	**1**	1
RMB4,500,001 – RMB5,000,000		
RMB5,000,001 – RMB5,500,000		
RMB5,500,001 – RMB6,000,000		
RMB6,000,001 or above		
Total	**5**	5

Note:

(1) A senior management member with the remuneration below RMB500,000 was dismissed by the Company in July 2017, and the remuneration disclosed was the fee paid to such senior management member during the term of office.

(2) For details of the remuneration of Mr. Wan Zhong, please refer to Note 13 to the consolidated financial statements in this annual report.

(3) Mr. Yue Zengguang has served as an executive Director of the Company since 28 August 2018. For details in the remuneration of Mr. Yue Zengguang, please refer to Note 13 to the consolidated financial statements in this annual report.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their duties for preparing the financial statements of the Company for the year ended 31 December 2018 which give a true and fair view of the Group as well as the affairs of the Company and of the Company's results and cash flows.

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

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 155 of this annual report.

Risk Management and Internal Control

Risk Management and Internal Control Systems

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

During the Reporting Period, details about establishment of the risk management systems, risk management structure and control measures of the Company are set out in "Risk Management" under the section headed "Management Discussion and Analysis" in this annual 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 defense 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 defense, 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 routine and targeted inspections. The audit department, as the third line of defense, 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 internal audit organisation of the Company 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 organised and coordinated the Company's annual internal audit during the Reporting Period based on the annual internal audit work plan for 2018. Additionally, the Company organised 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 kept promoting 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, requests performance assessment, and sets clear accountability". The Company maintained a sound development of internal control management, enhanced the execution of internal control measures, and optimised the establishment of risk control system. Details are as follows:

(1) The Company rationalised various rules and systems as well as operating procedures, and revised, optimised and supplemented the management measures and business operating procedures for all kinds of businesses in every aspect, which further established a more systematic, standardised 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 progress of 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 improving efficiency of operation and management;

(3) The Company conducted targeted inspections on credit management work and focused on the completeness of internal control system and the compliance of practical operation in respect of organisational structure, user management, query and application and information security, and actively eliminated potential risks;

(4) The Company conducted targeted inspections on the protection of the rights and interests of consumers, and attached great importance to the completeness of the organisational structure, the compliance of system construction and execution, the effectiveness of whole-process business control as well as the effectiveness of publicity and education, and fully disclosed potential risks and properly protected the legitimate rights and interests of consumers; and

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

During the Reporting Period, the Board had reviewed the risk management and internal control systems of the Group and considered the systems to be adequate and effective.

SENIOR MANAGEMENT

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

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

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2018, the annual audit service payable to the auditor by the Company amounted to RMB1.90 million (tax inclusive).

JOINT COMPANY SECRETARIES

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

Ms. Lai Siu Kuen (黎少娟) ("**Ms. Lai**") has resigned as the joint company secretary of the Company, authorised representative of the Company (the "**Authorised Representative**") under Rule 3.05 of the Listing Rules, and agent for the acceptance of service process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (the "**Process Agent**"), with effect from 31 August 2018.

Mr. Lee Kwok Fai, Kenneth ("**Mr. Lee**") has been appointed in the replacement of Mr. Lai as the joint company secretary, the Authorised Representative, and the Process Agent of the Company with effect from 31 August 2018.

Mr. He and Mr. Lee have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

TRANSPARENCY OF INFORMATION DISCLOSURE SYSTEM

The Company has always maintained a good information disclosure mechanism. While keeping high degree of transparency during communications with media, analysts and investors, we attach great importance to the handling of insider's information. In general, the Company formulated the Regulations on Information Disclosure Management of Shandong International Trust Co., Ltd. in accordance with the requirements of domestic and overseas laws and regulations, the Listing Rules and the Articles of Association, together with the actual conditions of the Company. Such management regulations were considered and approved by the Board, clearly expressing the duties and functions of information disclosure, handling and publish of inside information and the procedures of information which shall be disclosed.

With respect of internal information exchange and feedback, the Company has established a management system for information communication, forming specific and complete reporting procedures. In accordance with relevant requirements, the Company clarified the principles for disclosure and confidentiality of sensitive information, basis for identifying inside information, and solutions to and administrative measures for handling inside information. Publication and clarification of inside information were coordinated by the department responsible for information disclosure and implemented by the person authorised by the Board. Such person would clarify and explain the information circulated in the market in strict compliance with the management system formulated by the Company, which includes confidentiality work and publication on the websites of the Company and the Hong Kong Stock Exchange in the manner recognised by the Hong Kong Stock Exchange. For any information made public, the authorised person would check with the relevant internal department of the Company to ensure the truthfulness of its contents. The Directors, Supervisors and employees in possession of sensitive information of the Company would also strictly comply with the internal regulations and guidelines on information disclosure and trading of shares. According to such requirements, in the event that the Company is aware of any inside information or a false market may be formed, the Company shall disclose such information to the public as soon as reasonably practicable.

SHAREHOLDERS RIGHTS

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

Convening an Extraordinary General Meeting

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

(1) the number of directors is less than the number required by the PRC Company Law or less than two-thirds of the number stipulated in the Articles of Association;

(2) the outstanding loss of the Company has reached one-third of the total paid-up capital;

(3) Shareholders who individually or jointly hold 10% or more of the shares of the Company have requested to convene the extraordinary meeting in writing;

(4) the Board deems it necessary to convene the meeting;

(5) the Board of Supervisors proposes to convene the meeting; and

(6) any other circumstances as stipulated by the laws, administrative regulations, departmental rules or the Articles of Association.

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

Put Forward Proposals at General Meetings

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

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

Enquiries to the Board

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

CONVENING OF GENERAL MEETING OF THE YEAR

Subjects of General Meeting and the Content of Resolutions

The Company held the 2017 Annual General Meeting on 25 May 2018, and considered and approved resolutions including 2017 Work Report of the Board, 2017 Work Report of the Independent Directors, 2017 Work Report of the Board of Supervisors and 2017 Profit Distribution Plan and the increase in registered capital of the Company.

The Company convened the first extraordinary general meeting of 2018 on 10 July 2018, and considered and approved the resolutions including the election of Wan Zhong and other candidates as the Directors of the second session of the Board and the election of Guo Shougui and other candidates as the Shareholder representative Supervisors of the second session of the Board of Supervisors.

The Company convened the second extraordinary general meeting, the first domestic shareholders class meeting and the first H shareholders class meeting of 2018 on 19 October 2018, and considered and approved resolutions including proposed capitalisation issue, proposed amendments to the Articles of Association and proposed adoption of recovery and disposal plan.

Performance of Duties by the Board and Its Committees

Board of Directors

The Company convened the 23rd Board meeting of the first session of the Board of the Company by way of physical meeting on 22 January 2018, at which the Appointment of Vice General Manager of the Company was considered and was considered and passed.

The Company convened the 24th Board meeting of the first session of the Board of the Company by way of physical meeting on 22 March 2018, at which the 2017 Work Report of the Board (Draft), the 2017 Work Report of the General Manager, the Resolution of 2017 Financial Report (Draft) were considered and approved.

The Company convened the 25th Board meeting of the first session of the Board by way of physical meeting on 25 May 2018, at which the Resolution on the Shandong Luxin Venture Capital New and Old Kinetic Energy Conversion Parent Fund (Limited Partnership) (Temporary) 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) were considered and approved.

The Company convened the first Board meeting of the second session of the Board by way of physical meeting on 10 July 2018, at which the Resolution on the Election of Chairperson and the Resolution on the Appointment of a General Manager were considered and approved.

The Company convened the second Board meeting of the second session of the Board by way of physical meeting on 31 August 2018, at which the Resolution on 2018 Interim Report and the Announcement of Interim results of SITC and the Resolution on Increase in Registered Capital from Capital Reserve of SITC (draft) were considered and approved.

The Company convened the third Board meeting of the second session of the Board by way of correspondence meeting on 25 September 2018, at which the Resolution on Recovery and Disposal Plan of SITC (draft) was considered and approved.

The Company convened the fourth Board meeting of the second session of the Board by way of physical meeting on 19 October 2018, at which the Resolution on Participating in the Establishment of Hefei Taihe Fund Management Co., Ltd. was considered and approved.

The Company convened the fifth Board meeting of the second session of the Board by way of physical meeting on 7 December 2018, at which the Resolution on Luxin Taihe Technology Innovation Entrepreneurship Equity Investment Fund was considered and approved.

The Company convened the sixth Board meeting of the second session of the Board by way of correspondence meeting on 24 December 2018, at which the Resolution on Resolution on Amendments to the Rules of Procedure for the Business Decision-making Committee of the Board of Shandong International Trust Co., Ltd. and the Resolution on Amendments to the Rules of Procedure for the Audit Committee of the Board of Shandong International Trust Co., Ltd. were considered and approved.

Committees under the Board

In 2018, the Audit Committee of the Board convened 4 meetings, considered and reported to the Board on Report on the Performance of the Audit Committee for the Year 2017, Resolution on the Appointment of Domestic and Foreign Auditors of the Company for the Year 2018 and the Resolution on the Financial Report for the Year 2017, and on the financial management, external auditing, internal auditing and internal control of the Company and other matters, and provided important comments and recommendations of the Company.

In 2018, the Business Decision Committee of the Board convened a total of 73 meetings, of which 157 trust projects were considered and approved.

In 2018, the Trust Committee of the Board convened 1 meeting to consider and approve and report to the Board on the Resolution on Due Payment and Benefits Realization of Beneficiaries in relation to the Trust Business of the Company for the Year 2017, the Report on the Performance of the Trust Committee for the Year 2017, and the Resolution on Revision of the Rules of Procedure of the Trust Committee of the Board, providing rational suggestions for the development of the family trust business of the Company and protection of rights and interests of consumers.

In 2018 the Remuneration Committee of the Board convened 3 meetings to consider and approve and report to the Board on the Report on the Performance of the Remuneration Committee for the Year 2017, and the Resolution on Assessment Opinion on the Management Team by the Board of the Company for the Year 2017 and Assessment Measures in 2018 (Draft) and the Resolution on the Remuneration Plan for the Directors of the Second Session of the Board (Draft). The Remuneration Committee called for advice and suggestions in respect of the remuneration management and assessment for Directors and senior management and provide reasonable suggestions.

In 2018, the Strategies and Risk Control Committee of the Board convened one meeting to consider and approve and report to the Board on the Report on Compliance Risk Management Assessment for the Year 2017 (Draft), the Report on the Implementation of Resolving the 2017 Risk Tolerance (Draft) and the Report on Performance of Strategy and Risk Control Committee for the Year 2017. The Committee also provided recommendations based on the regulatory environment of the trust industry, industry development trend, the medium and long-term development strategies of the Company, as well as strengthening risk prevention and control.

In 2018, the Human Resources and Nomination Committee of the Board convened 4 meetings to review the structure of the Board, assess the independence of independent Directors, and report to the Board on the Resolution on the Appointment of Deputy General Manager, the Report on Performance of Personnel and Nomination Committee for the Year 2017, the Resolution on Election of Employee Representative Directors of the Second Session of the Board of Shandong International Trust Co., Ltd. (Draft), the Resolution on Election of Chairperson of the Board, the Resolution on Appointment of General Manager and the Resolution on Election of Non-employee Directors of the Second Session of the Board of Shandong International Trust Co., Ltd. (Draft). The Committee provided reasonable recommendations while reviewing the structure of the Board and assessed the independence of the Directors.

The Human Resources and Nomination Committee of the Company reviewed and assessed the composition of the Board and the independence of independent non-executive Directors, and offered recommendations to the Board on appointment of new directors of the Company. In recommending candidates for appointment to the Board, the Human Resources and Nomination Committee selected candidates on merit against objective criteria and with due regards to the diversity on the Board, including, but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service term, and time to be invested in as a Director of the Company. The Company will also consider its own business model and special needs from time to time. The final decision will be based on the contributions and strengths that the designated candidates may bring to the Board.

All committee members attended the above respective meetings.

Implementation of matters proposed and authorised in the general meeting

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

Performance of Duties of the Board Committees

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

Performance of Duties of the Independent Directors

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

Amendments to the Articles of Association

For details of the amendments to the Articles of Association, please refer to the section headed "Significant Events" in this annual report.

PRINCIPAL BUSINESSES AND BUSINESS REVIEW

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

In particular, please refer to "Business Overview", "Environment Overview", "Risk Management", "Future Prospects" and "Key Tasks for 2019" under the section headed "Management Discussion and Analysis" in this annual report for the business review, discussion and analysis of the performance for the year, principal risks and uncertainties and future business development of the Company. Please refer to "Financial Overview" under the section headed "Management Discussion and Analysis" in this annual report for analysis of the key financial performance indicators of the Company. Please refer to "Risks Management" under the section headed "Management Discussion and Analyses" in this annual report for the relevant laws and regulations compliance of which would have a significant impact on the Company. Please refer to "Human Resources Management" under the section headed "Management Discussion and Analysis" in this annual report and "Major Clients and Suppliers" in this section for the Company's relationships with its employees, clients and parties who have a significant impact on the Company.

RESULTS

The results of the Company for the year ended 31 December 2018 are set out in the independent auditor's report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

PROFITS AND DIVIDENDS DISTRIBUTION

Targeted at sustainable development and safeguarding the rights and interests of Shareholders, the Company attached great importance to reasonable investment returns to the public shareholders. On the premise of complying with relevant provisions of laws, regulations and regulatory policies, the Company implemented sustainable and stable dividend distribution policies. The distribution of dividends of the Company will be considered depending on factors such as (including but not limited to), our results of operations, cash flow, financial position, requirements on net capital, capital adequacy ratio, business prospect and statutory, regulatory and contractual restrictions in relation to our declaration and payment of dividends, as well as other factors the Board may consider important. Profit distribution of the Company shall not exceed the amount of cumulative distributable profit. Any proposed distribution of dividends shall be formulated by our Board of Directors and will be subject to approval of general meeting.

Pursuant to applicable laws and regulations and the Articles of Association, the Company will pay dividends from profits after tax only subsequent to the following distributions:

(1) make up for the loss in the previous year (if any);

(2) appropriate an amount equivalent to 10% of profits after tax to statutory reserve. When aggregate amount reaches 50% of the registered capital of the Company, no appropriation to statutory reserve is necessary;

(3) appropriate an amount not less than 5% of profits after tax to trust compensation reserve. When aggregate amount reaches 20% of the registered capital of the Company, the Company needs not to withdraw additional funds to the reserve;

(4) appropriate funds (if any) to any surplus reserve approved by Shareholders at the General Meeting.

As required by the Ministry of Finance, the Company must maintain the general reserve as an integral part of reserve of the Company by appropriating profits after tax, being an amount not less than 1.5% of the balance of risk assets. Distributable profits not distributed in any given year will be reserved and available for distribution in subsequent years.

Pursuant to the recovery and disposal plan (the "**Recovery and Disposal Plan**") approved at the 2018 second extraordinary general meeting of the Company, in case of critical risks, the Company may reduce the profit to be distributed or hold off the distribution of profit, and, where necessary, either carry out asset restructuring in order to resolve risks or to use the profit distributed to Shareholders whose qualifications as shareholders were approved by the CBIRC and its local office, which refer to holders of the domestic Shares of the Company and the Shareholders who hold circulating stock of the Company representing 5% or above of the total issued shares of the Company, in previous years for capital replenishment of or risk mitigation, as to enhance the Company's ability to withstand risks.

The Company's profits for the year ended 31 December 2018 are set out in "Financial Overview" under the section headed "Management Discussion and Analysis" in this annual report.

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 Board has recommended the payment of the final dividend of RMB0.081 per share (tax inclusive) in cash for the year ended 31 December 2018, representing a total payment of approximately RMB377.4 million (tax inclusive). The final dividend is subject to approval of the Shareholders at the forthcoming annual general meeting of the Company for 2018. If approved, the final dividend of the Company for the year ended 31 December 2018 will be denominated and declared in Renminbi. Distribution of the dividends to holders of domestic Shares of the Company will be paid in Renminbi, while dividends to holders of H Shares of the Company will be paid in Hong Kong dollars of an equivalent amount. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average central parity exchange rate of the five business days preceding the date of the Company's 2018 annual general meeting (i.e. 23 May 2019), as announced by the People's Bank of China. Once approved at the Company's 2018 annual general meeting, the final dividends is expected to be distributed on 22 July 2019. The register of transfers of H Shares will be closed from 10 June 2019 to 17 June 2019 (both days inclusive), during which no H Shares transfer will be registered. Holders whose names appear on the Company's H Shares Register of members and the Domestic Share register of members on 17 June 2019 will be entitled to receive the final dividend. In order to qualify for the distribution of final dividends, holders of H Shares are required to deposit all of the transfer documents together with the relevant H Share certificates at the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited located at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on 6 June 2019 for registration. A separate announcement will be published if there is any change to the aforesaid dates.

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

The Company shall withhold and pay enterprise income tax and individual income tax for holders of H Shares in respect of the 2018 final dividends in accordance with relevant laws and regulations. The Company is required to withhold and pay enterprise income tax of 10% on behalf of holders of non-resident enterprise H Shares (including those H Shares registered under the name of HKSCC Nominees Limited). In addition, pursuant to the applicable provisions and implementation regulations of the PRC Individual Income Tax Law《(中華人民共和國個人所得稅法》) and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 of the State Administration of Taxation (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), the Company is required to withhold and pay individual income tax for overseas non-resident individual holders of H Shares. Overseas resident individual Shareholders of a domestic non-foreign investment enterprise which issues stocks in Hong Kong are entitled to the relevant preferential tax treatments in accordance with the tax treaties entered into by and between his/her country of origin and China and the taxation arrangement between China and Hong Kong (Macau). Unless otherwise provided by the relevant tax laws and regulations or taxation arrangement, dividends distributed by a domestic non-foreign invested enterprise issuing shares in Hong Kong are generally subject to withholding rate of 10% of the individual income tax. If the final dividend for the year 2018 is approved at the annual general meeting, the Company will publish an announcement in respect of the withholding and payment of enterprise income tax and individual income tax.

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

RESERVES AND DISTRIBUTABLE RESERVES

The details of the changes in the reserves of the Company for the year ended 31 December 2018 are set forth in Note 32 and 33 to the audited consolidated financial statements, and in the consolidated statement of changes in equity on page 162, respectively, of which the details of the reserve distributable to Shareholders are set forth in Note 32 to the audited consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company for the past five financial years is set out on page 8 of this annual report. Such summary does not form part of the audited consolidated financial statements.

DONATIONS

For the year ended 31 December 2018, the charity donations and other donations made by the Company were approximately RMB5.0 million.

PROPERTY, PLANT AND EQUIPMENT

None of the properties held by the Company had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. Details in relation to the changes in property and equipment of the Company for the year ended 31 December 2018 are set out in Note 18 "Property, Plant and Equipment" to the consolidated financial statements.

SHARE CAPITAL AND PUBLIC FLOAT

Details of the changes in the share capital of the Company for the year ended 31 December 2018 are set out in note 31 to the consolidated financial statements in this annual report.

For the year ended 31 December 2018, the issued share capital of the Company was 2,588,250,000 shares (of which 1,941,175,000 were Domestic Shares and 647,075,000 were H Shares). Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Listing Rules) of the Company's total issued share capital were held by the public during the Reporting Period and up to the date of this annual report.

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

For the period from 1 January 2018 to 31 December 2018, the Company did not purchase, sell or redeem any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

MAJOR CLIENTS AND SUPPLIERS

For the year ended 31 December 2018, 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.

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. The offer price was HK$4.56 per H share. The nominal value is RMB1.00 per H share. After deduction of (i) the net proceeds from the sale of the sale shares by the selling Shareholders in the global offering; and (ii) the underwriting commissions and other expenses in connection with the global offering, the net proceeds received by the Company from the global offering were approximately HK$2,560.3 million. The proceeds are intended to be utilised in the manner set out in the prospectus of the Company dated 28 November 2017.

As at 31 December 2018, HK$2,274 million has been settled to the Company's domestic accounts and had been collected in full together with the Company's existing proprietary assets for allocation to different assets classes, significantly increasing the Company's net capital. Certain raised funds will be retained overseas for the establishment of Hong Kong subsidiaries and expansion of international business.

On 26 February 2019, the Company entered into an asset management agreement with Fullgoal Asset Management (HK) Limited, pursuant to which the Company entrusted no more than HK$620 million which will be contributed by the internal resources of the Company, including the proceeds from the global offering, to increase the rate of return of the cash and cash equivalents.

MAJOR INVESTMENTS NOT FINANCED BY FUND-RAISING

For the year ended 31 December 2018, the Company did not have any major investment not financed by fund-raising.

BORROWINGS

The Company's borrowings as at 31 December 2018 amounted to approximately RMB450.0 million. Details of the borrowings are set out in note 36 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

Biographical details of Directors, Supervisors and senior management are set out in the section headed "Details of Directors, Supervisors and Senior Management" on pages 72 to 86 of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his independence for the period from 1 January 2018 to 31 December 2018 pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent pursuant to Rule 3.13 of the Listing Rules.

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

For the period from 1 January 2018 to 31 December 2018, 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.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

TERMS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

Each of the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors has entered into a service contract with a term of three years with the Company. None of our Directors or Supervisors have entered into a service contract with the Company with a term specifying that if the Company terminates the contract within one year, the Company has to make compensation apart from statutory compensation. Details of the remuneration of the Directors, Supervisors and the five highest paid individuals of the Company are set out in note 13 to the consolidated financial statements for this year.

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

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

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

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

As at 31 December 2018, none of the Directors, Supervisors, senior management or their respective associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or which they were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, during the period from 1 January 2018 to 31 December 2018, the Company had not been a party to any arrangement that would enable the Directors or Supervisors to benefit from the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

PERMITTED INDEMNITY PROVISION

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

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

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

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

MANAGEMENT CONTRACTS

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

EQUITY-LINKED AGREEMENT

For the period from 1 January 2018 to 31 December 2018, the Company had not entered into or renewed any equity-linked agreement.

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

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

CONNECTED TRANSACTIONS

Establishment of Capital Venture Parent Fund

On 26 October 2018, the Company entered into a limited partnership agreement with Shandong High-Tech, Shandong New Kinetic Energy Fund Management Co., Ltd. and Luxin Venture Capital in relation to the establishment of Shandong Luxin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) (tentatively) (the "**Venture Capital Parent Fund**") (the "**Limited Partnership Agreement**"). Pursuant to the Limited Partnership Agreement, the Company has agreed to commit a cash contribution of RMB260 million to the Venture Capital Parent Fund, representing 26% of the total capital commitment of the Venture Capital Parent Fund.

On 26 October 2018, Shandong High-Tech and Luxin Venture Capital are subsidiaries of Lucion Group, the Controlling Shareholder of the Company and hence they are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Limited Partnership Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. For details of the establishment of the Venture Capital Parent Fund and the Limited Partnership Agreement, please refer to the announcement of the Company dated 26 October 2018.

Possible Establishment of Taihe Fund

On 7 December 2018, the Board approved the resolution on the Company's proposed participation in the initiation and establishment of Luxin Taihe Technology Innovation Entrepreneurship Equity Investment Fund (limited partnership) (tentatively) ("**Taihe Fund**"). In respect of the possible establishment of Taihe Fund, as the parties are still going through their respective decision-making procedures, relevant agreement(s) has(ve) not been executed and registration procedures have not been completed for Taihe Fund. Parties proposed to participate in the establishment of Taihe Fund included General Partners, namely Anhui Luxin Equity Investment Fund Management Company Limited ("**Anhui Luxin Fund Management**") and Jinan Wenjing Investment Management Co., Ltd. ("**Wenjing Investment**"), and Limited Partners, namely the Company, Shandong High-Tech Venture Capital Co., Ltd. ("**Shandong High-Tech**"), Anhui Luxin Investment Company Limited ("**Anhui Luxin**"), Guotai Leasing Limited Company ("**Guotai Leasing**") and Hefei Xingtai Capital Management Company Limited ("**Xingtai Capital**"). The size of Taihe Fund shall be RMB500 million, and the proposed capital contribution shared by the Company shall be RMB100 million. For details of possible establishment of Taihe Fund, please refer to the announcement of the Company dated 7 December 2018.

As at 7 December 2018, Lucion Group is interested in 51.95% of the total issued share capital of the Company, making it the Controlling Shareholder of the Company. Luxin Venture Capital and Shandong High-Tech are subsidiaries of Lucion Group, and therefore are associates of Lucion Group. In addition, Anhui Luxin is owned as to 30% by Luxin Venture Capital and 19% by Lucion Group and therefore is also an associate of Lucion Group. Furthermore, Anhui Luxin Fund Management will be owned as to 25% by the Company, 30% by Anhui Luxin and 25% by Shandong High-Tech, and therefore is also an associate of Lucion Group. Hence, each of Luxin Venture Capital, Shandong High-Tech, Anhui Luxin and Anhui Luxin Fund Management is a connected person of the Company. Accordingly, pursuant to Chapter 14A of the Listing Rules, once the matters on possible establishment of the Fund are confirmed and relevant agreement(s) is (are) executed, they may constitute connected transaction(s) of the Company.

In respect of the possible establishment of Taihe Fund, as the parties are still going through their respective decision-making procedures, relevant agreement(s) has(ve) not been executed and registration procedures have not been completed for Taihe Fund. For further details relating to possible establishment of Taihe Fund, the formal agreement(s) to be entered into among the parties shall prevail. After signing the formal agreement(s), the Company shall, in due course, issue further announcement in accordance with the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. *Placement Agency Framework Agreement with Kunlun Trust*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For details of the above non-exempt connected transaction, please refer to the section headed "Connected Transactions" of the Prospectus.

The following table sets forth the respective annual caps and actual amounts for the non-exempt continuing connected transactions of the Company for the year ended 31 December 2018:

Continuing connected transactions	**Annual caps for the year ended 31 December 2018**	**Actual amounts for the year ended 31 December 2018**
	(RMB in thousands)	
I. Continuing connected transactions subject to the annual reporting and announcement requirements		
1. Property Management Service Agreements with Shandong Lucion Hengsheng Property Management Co., Ltd.	**8,704**	**8,410**
2. Framework Trust Consulting Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.	**6,700**	**2,124**
3. Information Technology Service Framework Agreement with Lucion Science and Technology Co., Ltd	**16,000**	**5,956**
4. Framework Placement Agency Agreement with Kunlun Trust Co., Ltd.	**45,000**	**–**
II. Continuing connected transactions subject to the annual reporting, announcement, circular and independent shareholders' approval requirements		
1. Management of Assets Entrusted by CNPC Assets Management and/or its associates		
Trustee's remuneration to be received from the trusts of which CNPC Assets Management and its associates are trustors	**90,000**	**–**
Maximum outstanding balance of the assets and funds to be entrusted by CNPC Assets Management and its associates	**10,000,000**	**–**
2. Management of Asset Entrusted by Lucion Group and/or its associates		
Trustee's remuneration to be received from the trusts of which Lucion Group and its associates are trustors	**184,500**	**41,780**
Maximum outstanding balance of the assets and funds to be entrusted by Lucion Group and its associates	**15,000,000**	**3,456,894**
3. Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by the Company		
Trustee's remuneration to be received from the trusts providing financing to Lucion Group and its associates	**80,000**	**15,441**
Outstanding balance (including interests accrued thereon) of the loans or financing to Lucion Group and its associates	**20,000,000**	**4,933,360**

Confirmation from independent non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions during the period from 1 January 2018 to 31 December 2018, and confirmed such transactions have been:

(1) entered into in the ordinary and usual course of business of the Company;

(2) entered into on normal or better commercial terms; and

(3) conducted in accordance with the relevant agreement whose terms are fair and reasonable and in the interests of the Shareholders as a whole.

Letter from the auditor

The auditors of the Company have performed certain planned audit procedures for the above continuing connected transactions entered into by the Company for the year ended 31 December 2018, and concluded that such transactions:

(1) have been approved by the Board；

(2) have followed the pricing policies of the Company in all material aspects;

(3) were conducted in accordance with the relevant agreements for such transactions in all material aspects; and

(4) have an aggregate amount not exceeding the relevant cap disclosed in the annual report.

III. Fully Exempt Continuing Connected Transactions

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

RELATED PARTY TRANSACTIONS

Please refer to note 40 to the consolidated financial statements in this annual report for details of the significant related party transactions pursuant to IFRSs. For the connected transactions and continuing connected transactions pursuant to the requirements of the Listing Rules, please refer to the disclosure set out in this section. The Company has disclosed such connected transactions in accordance with the disclosure requirements in Chapter 14A of the Listing Rules. Save as disclosed in this section, other related party transactions disclosed in note 40 are not considered as connected transactions, or are exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

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

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

Luxin Group has provided a written confirmation to the Company, confirming that it has complied with the Non-competition Undertaking for the year ended 31 December 2018. The independent non-executive Directors have reviewed the status of compliance and confirmed that the Controlling Shareholders had complied with the Non-competition Undertaking.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

ENVIRONMENTAL POLICY

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2018 and the financial statements for the year ended 31 December 2018 prepared in accordance with the IFRS.

AUDITOR

PricewaterhouseCoopers was appointed as the auditor to audit the financial statements for the year ended 31 December 2018 prepared in accordance with the IFRS. The enclosed consolidated financial statements prepared in accordance with the IFRS have been audited by PricewaterhouseCoopers. The Company has retained PricewaterhouseCoopers since the date of preparation of its listing. PricewaterhouseCoopers will retire as the Company's auditor at the end of the forthcoming shareholders' annual general meeting of the Company and, being eligible, will offer themselves for re-appointment. A resolution will be proposed for approval by Shareholders at the forthcoming shareholders' annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the Company's auditor for the year ending 31 December 2019.

EVENTS AFTER THE Reporting Period

For the significant events of the Company during the Reporting Period, please refer to the section headed "Significant Events" in this annual report.

By order of the Board
Chairperson of the Board
Wan Zhong

22 March 2019

COMPOSITION OF THE BOARD OF SUPERVISORS

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

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

FUNCTIONS AND AUTHORITIES AND OPERATION OF THE BOARD OF SUPERVISORS

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

(1) to examine the financial conditions of the Company, understand the operations of the Company, and undertake the corresponding obligations of confidentiality, and the Board of Supervisors may, in the name of the Company, engage an accounting firm to independently examine the financial conditions of the Company, if necessary;

(2) to supervise the performance of duties by the Directors and senior management members of the Company and to propose the removal of Directors and senior management members who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general meeting;

(3) to urge Directors and senior management members of the Company to rectify their acts which impair the interests of the Company;

(4) to propose to convene an extraordinary general meeting, and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meeting as stipulated by the PRC Company Law;

(5) to put forward proposals at the general meetings;

(6) to negotiate with Directors and senior management of the Company on behalf of the Company, or to initiate lawsuits against Directors and senior management of the Company in accordance with the PRC Company Law;

(7) to be entitled to require Directors or senior management to attend meetings of the Board of Supervisors to answer questions;

(8) verify financial information such as financial reports, business reports and profit distribution plans that the Board intends to submit to the general meeting and, in case any problem is identified, to be able to appoint, in the name of the Company, a registered accountant or practicing auditor to assist in reviewing such information, and the expenses shall be borne by the Company;

(9) to elect the chairperson of the Board of Supervisors;

(10) formulate the procedural rule for the Board of Supervisors; and

(11) other functions and powers provided by applicable laws, regulations and the Articles of Association.

MEETING OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors had held five meetings and considered and approved 14 proposals and matters including Work Report of the Board of Supervisors of Shandong International Trust Co., Ltd. for the Year 2017, Resolution on the Financial Report for the Year 2017, Resolution on Election of Supervisors of the Second Session of Board of Supervisors of Shandong International Trust Co., Ltd. and Resolution on Election of Chairperson of Board of Supervisors.

The attendance of the Supervisors of the Company at meetings of the Board of Supervisors during the Reporting Period is listed below:

Supervisors	Number of attendance in person(1)/ meetings requiring attendance
Board of Supervisors	
Guo Shougui(2)	3/3
Hou Zhenkai	5/5
Chen Yong	5/5
Wu Chen	5/5
Guan Wei	5/5
Wang Zhimei(2)	3/3
Tian Zhiguo	5/5
Zuo Hui	5/5
Li Aiping	5/5
Resigned Supervisors	
Yang Gongmin	2/2
Wang Yuepu	1/2

Notes:

(1) Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference.

(2) Mr. Guo Shougui and Ms. Wang Zhimei were appointed as Supervisors of the Company on 10 July 2018.

(3) Supervisors who could not attend the meetings of the Board of Supervisors but had appointed other Supervisors to attend the meetings and exercise the voting right on their behalf.

WORK OF BOARD OF SUPERVISORS

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

Performance Supervision

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

Financial Supervision

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

Internal Control Supervision

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

Risk Supervision

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

Internal Matters

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

INDEPENDENT OPINIONS ISSUED BY THE BOARD OF SUPERVISORS

In accordance with the Articles of Association and relevant regulations, the Board of Supervisors for the year 2018 has discharged its supervisory duties against the performance of the Board and senior management of the Company. Comments on the relevant issues are as follows:

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

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

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

Financial report

The financial report for the year of 2018 reflects a fair, true and complete view of the Company's financial position and operating results.

Relevant advice and work plan for the year 2019

In 2019, the Board of Supervisors and each Supervisor will the follow the PRC Company Law, the Guidelines for Governance of Trust Companies and the Articles of Association, centring around the operating objectives and major tasks of the Company in 2019. The Board of Supervisors, together with its members, will continue to improve on its ability of work and level of supervision, proactively diversifying its mindset and diligently perform its duties, thereby helping the Company improve the corporate governance structure and the internal risk control, level insist on operations in compliance with applicable laws and regulations, safeguard the interest of the Company and its Shareholders and realise sustainable and healthy development.

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

By order of the Board of
Chairperson of the Board of Supervisors
Guo Shougui

22 March 2019

CHANGE OF REGISTERED CAPITAL AND CHANGE OF ADDRESS OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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. 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.

With effect from 31 May 2018, the principal place of business of the Company in Hong Kong changed to 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

CAPITALISATION ISSUE AND CHANGE IN BOARD LOT SIZE

According to the authorization of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, the Company completed the issue of New Shares to Shareholders by way of capitalisation of capital reserve on the basis of 8 new Shares for every 10 existing Shares then held by Shareholders whose names were on the register of members of the Company on the Record Date (19 December 2018). A total of 2,070,600,000 New Shares were issued under the capitalisation issue, including 1,552,940,000 New Domestic Shares and 517,660,000 New H Shares (the "**Capitalisation Issue**"). The total shares in issue immediately following the completion of Capitalisation Issue increased to 4,658,850,000 Shares, comprising 3,494,115,000 domestic Shares and 1,164,735,000 H Shares. The listing and trading of new H Shares on the Hong Kong Stock Exchange commenced on 9 January 2019. The board lot size of H Shares trading has been changed from 1,000 H Shares to 1,800 H Shares, with effect from 9 January 2019 (the "**Change in Board Lot Size**"). For details about the Capitalisation Issue and the Change in Board Lot Size, please refer to the circular dated 3 September 2018 and the announcement of poll results dated 19 October 2018.

Immediately following the completion of Capitalisation Issue, the issued share capital of the Company increased from RMB2,588,250,000 to RMB4,658,850,000. The Company has received the approval of preparatory group of Shandong Office of the CBIRC in respect of the change of registered capital by way of capitalisation issue, and completed the registration of registered capital change on 17 January 2019; as such, the registered capital of the Company increased from RMB2,588,250,000 to RMB4,658,850,000.

Save as disclosed above, the Company had not changed its registered capital or its capital structure during the Reporting Period.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

In light of the subsequent change in the Company's registered capital upon completion of the global offering, and in pursuance with the actual results of the offering and the requirements of relevant industrial and commercial registration authorities, the Company has made the amendments to relevant articles (registered capital and the short name of Chinese name of the Company) of the Articles of Association and authorise the Board of Directors to complete the approval and/or registration or filing of the amendments to the Articles of Association according to the relevant laws, regulations and requirements of relevant government authorities and regulatory authorities. Details of the resolution regarding the amendments were considered and passed by the Shareholders on the 2017 annual general meeting held on 25 May 2018.

The Company amended the Articles of Association in accordance with, among other things, 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 CBRC, 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. The Company also amended the Articles of Association in light of the subsequent change in the Company's registered capital upon completion of the Capitalisation Issue, the details of which were set out in the circular of the Company dated 3 September 2018. Details of the resolutions regarding the amendments were approved by the Shareholders at the 2018 second extraordinary general meeting of the Company held on 19 October 2019.

Save as disclosed above, at the end of the Reporting Period, there is no material change to the Articles of the Association. The Company's Articles of Association are available on the websites of the Company and the Hong Kong Stock Exchange.

ADOPTION OF RECOVERY AND DISPOSAL PLAN

The Company, as a trust company in the PRC, is bound by the Guidance on Risk Supervision of Trust Companies (Yin Jian Ban Fa [2014] No. 99) (《關於信託公司風險監管的指導意見》(銀監辦發[2014] 99號)) issued by the CBRC on 8 April 2014 (the "**Guidance**") and required to fully comply with the Guidance. In order to conform to the principles of the Guidance, which requires a trust company in the PRC to (i) establish and improve the self-recovery and disposal mechanism, (ii) prepare the Company well to deal with operational and liquidity risks, and (iii) maintain financial stability, the Company formulated the Recovery and Disposal Plan in accordance with the Guidance by taking into consideration of its specific situations.

The Recovery and Disposal Plan comprises four parts, including (i) the incentive remuneration deferral system, (ii) the profit distribution restriction and profit distribution clawback mechanism, (iii) the business carve-out and recovery mechanism, and (iv) the institutional disposal mechanism, all of which aim to enable the Company to properly deal with and dispose of risks, resume operating ability and maintain financial and social stability upon the occurrence of operational risk and survival crisis.

The Recovery and Disposal plan was approved at the 2018 second extraordinary general meeting of the Company. For details of the Recovery and Disposal Plan, please refer to the supplemental circular of the Company dated 3 October 2018.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATION

As at 31 December 2018, we, being the plaintiff and applicant, were involved in 13 pending material litigations cases involving an amount of more than RMB10 million; the value of litigations cases in which we were involved totalled approximately RMB2,889.04 million. These litigations cases were mainly brought by us against the relevant counterparty clients due to their failure to repay the loans granted by our trusts.

As at 31 December 2018, we, being the defendant, were involved in two pending litigations cases, of which the amount in dispute was more than RMB10 million; the value of the litigations cases in which we were involved totalled approximately RMB36.12 million.

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

During the Reporting Period, no penalty was imposed on the Company and Directors, Supervisors, senior management of the Company.

PROVISIONAL REPORT ON MATERIAL ISSUES

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

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

Save as disclosed in this annual report, for the year ended 31 December 2018, the Company did not have other important information which the CBIRC and its provincial offices considered necessary to inform clients and stakeholders.

RECTIFICATION OPINION ISSUED BY THE CBIRC AND ITS LOCAL OFFICES UPON INSPECTION OF THE COMPANY

During the Reporting Period, the Preparatory Group of the Shandong Office of CBIRC commenced the special inspection of "Further Deepening the Rectification of Irregularities in the Market" against the Company during the period from 10 September to 30 September 2018 in accordance with the "CBRC's Notice on Further Deepening the Rectification of Irregularities in the Banking Market" and the "CBRC General Office's Notice on Publishing the 2018 On-site Investigation Plan" and expressed its investigation opinion on 28 November 2018. The Company formulated targeted rectification plans for the problems raised in such investigation opinion, making substantial progress on rectification works.

Save as disclosed in this annual report, the Company had no significant events after the Reporting Period.

DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS AS REQUIRED BY CBIRC

"Substantial Shareholders" mentioned in this section are Shareholders who hold or control more than 5% of the Shares or voting rights of the Company or who hold less than 5% of the total capital or total share capital but have a material impact on the operation and management of the Company. "Material Impact" means, including but not limited to the nomination of Directors, Supervisors or senior management of the Company, affecting the decision-making of finance, operation and management of the Company by way of agreements or other ways, and other circumstances recognised by the CBRC or its designated authorities. "Acting in concert" refers to an act or a fact that an investor and other investors jointly enlarge the number of the shares with voting rights in a certain company by way of agreements or other arrangements. The investors who agree to act in concert are parties acting in concert. "Ultimate beneficiary" refers to the parties who actually hold the equity income of the Company.

Lucion Group

Lucion Group, established in the PRC in January 2002, is currently owned as to 70% by Shandong Provincial State-owned Assets and Administration Commission, as to 20% by Shandong Guohui Investment Co., Ltd. and as to 10% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會), respectively. Its legal representative is Ji Binchang. It has a registered capital of RMB3 billion, and its registered address is No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC. Lucion Group is an investment holding company, which is principally engaged in financial and industrial investment, asset management services, investment consultancy services and property and hotel management.

As at the end of the Reporting Period, Lucion Group's acting in concert was Shandong High-Tech Venture Capital Co., Ltd.. The ultimate beneficiary of Lucion Group was the company itself. Lucion Group has reported related parties to the Company in accordance with regulatory provisions.

As at 31 December 2018, Lucion Group held 1,219,668,100 Domestic Shares of the Company and owned 125,000,000 Domestic Shares of the Company directly and indirectly through its controlled company, holding 1,344,668,100 Shares in total, representing 51.95% of the total share capital of the Company. During the Reporting Period, Wan Zhong and Jin Tongshui, Directors of the Company, and Hou Zhenkai, a Supervisor of the Company, were nominated by Lucion Group.

CNPC Assets Management

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

As at the end of the Reporting Period, CNPC Assets Management did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of CNPC Assets Management was the company itself. CNPC Assets Management has reported related parties to the Company in accordance with regulatory provisions.

As at 31 December 2018, CNPC Assets Management held 485,293,750 domestic Shares in the Company, representing 18.75% of the total share capital of the Company. During the Reporting Period, Xiao Hua, a Director of the Company, and Chen Yong, a Supervisor of the Company, were nominated by CNPC Assets Management.

Jinan Finance Holding Group Co., Ltd.

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

As at the end of the Reporting Period, Jinan Finance Holding Group Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Jinan Finance Holding Group Co., Ltd. was the company itself. Jinan Finance Holding Group Co., Ltd. has reported related parties to the Company in accordance with regulatory provisions.

As at 31 December 2018, Jinan Finance Holding Group Co., Ltd. held 140,425,000 H Shares of the Company, representing 5.43% of the total share capital of the Company.

Shandong High-Tech Venture Capital Co., Ltd.

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

As at the end of the Reporting Period, Shandong High-Tech Venture Capital Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Shandong High-Tech Venture Capital Co., Ltd. was the company itself. Shandong High-Tech Venture Capital Co., Ltd. has reported related parties to the Company in accordance with regulatory provisions.

As of 31 December 2018, Shandong High-Tech Venture Capital Co., Ltd owned 125,000,000 Domestic Shares of the Company, representing 4.83% of the total share capital of the Company. During the Reporting Period, Guo Shougui, a Supervisor of the Company, was nominated by Shandong High-Tech Venture Capital Co., Ltd.

Shandong Gold Group Co., Ltd.

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

As at the end of the Reporting Period, Shandong Gold Group Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Shandong Gold Group Co., Ltd. was the company itself. Shandong Gold Group Co., Ltd. has reported related parties to the Company in accordance with regulatory provisions.

As of 31 December 2018, Shandong Gold Group Co., Ltd. owned 44,485,260 Domestic Shares of the Company, representing 1.72% of the total share capital of the Company. During the Reporting Period, Wu Chen, a Supervisor of the Company, was nominated by Shandong Gold Group Co., Ltd..

Jinan Energy Investment Co., Ltd.

Jinan Energy Investment Co., Ltd., established in April 1998 in PRC, is a wholly state-owned enterprise. The legal representative is Zhang Jilu, and its registered capital is RMB200 million. The registered address is 2/F, Block A, Yinhe Building, 2008 Xinluo Avenue, Gaoxin District, Jinan. It is primarily engaged in the operation and management of power construction funds and energy capitals.

As at the end of the Reporting Period, Jinan Energy Investment Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Jinan Energy Investment Co., Ltd. was the company itself. Jinan Energy Investment Co., Ltd. has reported related parties to the Company in accordance with regulatory provisions.

As of 31 December 2018, Jinan Energy Investment Co., Ltd. owned 33,363,945 Domestic Shares of the Company, representing 1.29% of the total share capital of the Company. During the Reporting Period, Guan Wei, a Supervisor of the Company, was nominated by Jinan Energy Investment Co., Ltd.

Weifang Investment Group Co., Ltd.

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

As at the end of the Reporting Period, Weifang Investment Group Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Weifang Investment Group Co., Ltd. was the company itself. Weifang Investment Group Co., Ltd. has reported related parties to the Company in accordance with regulatory provisions.

As of 31 December 2018, Weifang Investment Co., Ltd. owned 33,363,945 Domestic Shares of the Company, representing 1.29% of the total share capital of the Company. During the Reporting Period, Wang Zhimei, a Supervisor of the Company, was nominated by Weifang Investment Co., Ltd..

TABLE OF USE AND DISTRIBUTION OF TRUST ASSETS

As at 31 December 2018

Unit: RMB0'000

Use of assets	**Amount**	**Portion** *(%)*	**Distribution of assets**	**Amount**	**Portion** *(%)*
Currency assets	300,026.21	1.26	Basic industry	3,874,342.42	16.31
Loans	11,415,879.78	48.07	Housing properties	6,331,776.62	26.66
Tradable financial assets investment	2,061,098.22	8.68	Securities market	1,342,636.11	5.65
Available-for-sale financial assets investment	169,362.92	0.71	Industry	7,163,325.89	30.16
Held-to-maturity investment	7,040,963.05	29.65	Financial institutions	2,657,233.04	11.19
Long-term equity interest investment	1,689,500.12	7.11	Others	2,381,362.56	10.03
Others	1,073,846.34	4.52			
Total trust assets	23,750,676.64	100.00	**Total trust assets**	23,750,676.64	100.00

COMBINED BALANCE SHEET OF TRUST PROJECTS

Prepared by: Shandong International Trust Co., Ltd.

31 December 2018

Unit: RMB0'000

Assets	Ending balance	Opening balance
Assets:		
Cash and bank deposits	**253,117.32**	364,133.00
Placement to banks and other financial institutions	**–**	–
Clearing settlement funds	**46,908.89**	79,442.72
Financial assets held for trading	**2,061,098.22**	3,426,426.16
Derivative financial assets	**–**	–
Financial assets purchased under agreements to resell	**169,362.92**	21,170.70
Account receivables	**–**	–
Interest receivables	**43,234.37**	38,386.86
Dividend receivables	**11,269.35**	4,034.22
Note receivables	**–**	–
Application payment receivables	**–**	–
Other receivables	**162,746.90**	125,616.50
Refundable deposits	**–**	–
Loans to customers	**11,415,879.78**	13,459,816.10
Long-term receivables	**189,855.53**	161,450.91
Available-for-sale financial assets	**1,001.72**	142,588.62
Held-to-maturity investments	**7,040,963.05**	7,337,465.03
Long-term equity investments	**1,689,500.12**	1,872,400.34
Investment properties	**–**	–
Finance leasing assets	**–**	–
Fixed assets	**–**	–
Disposal of fixed assets	**–**	–
Intangible assets	**–**	–
Long-term amortisation expenses	**–**	–
Other assets	**665,738.47**	134,566.82
Total trust assets	**23,750,676.64**	27,167,497.98
Less: provision for impairment of various assets	**–**	–
Total assets	**23,750,676.64**	27,167,497.98

Liabilities and equity	Ending balance	Opening balance
Liabilities:		
Financial liabilities held for trading	**–**	–
Derivative financial liabilities	**–**	–
Disposal of repurchased financial assets	**10,959.28**	51,482.38
Account payable	**0.04**	–
Redemption payables	**18,337.13**	75,414.72
Trustee's remuneration payable	**22,570.96**	35,907.37
Beneficiaries' gains payable	**23,799.34**	68,014.12
Custodian fees payable	**679.07**	987.31
Service fees for sales payable	**1.56**	1.56
Tax payable	**1,632.07**	–
Interests payable	**21.69**	–
Other payables	**141,765.67**	49,919.89
Other liabilities	**1,050.55**	5,158.95
Total liabilities	**220,817.36**	286,886.30
Equity:		
Paid-up trusts	**23,192,163.07**	26,340,763.36
Capital reserves	**90,828.49**	71,789.49
Equalisation	**–**	–
Undistributed profit	**246,867.72**	468,058.83
Total equity	**23,529,859.28**	26,880,611.68
Total liabilities and equity	**23,750,676.64**	27,167,497.98

COMBINED STATEMENT FOR INCOME AND INCOME DISTRIBUTION OF TRUST BUSINESS

Prepared by: Shandong International Trust Co., Ltd.

Year of 2018

Unit: RMB0'000

Item		Aggregate for last year	**Aggregate for this year**
I.	**Revenue**	1,800,222.28	**1,293,687.30**
	Interest income	1,196,914.84	**957,570.42**
	Investment income (losses indicated in "-")	474,638.96	**469,692.80**
	Including: Income from investment in associates and joint ventures	–	**–**
	Gains from change in fair value (losses indicated in "-")	103,516.92	**-134,360.39**
	Lease income	1.06	**-36.07**
	Exchange gains and losses (losses indicated in "-")	–	**–**
	Other income	25,150.50	**820.54**
II.	**Expenses**	240,019.22	**191,935.17**
	Business tax and surcharges	–	**4,369.92**
	Trustees' remuneration	120,956.21	**110,599.37**
	Custodian fees	15,899.24	**12,153.46**
	Service fees for sale	5,083.79	**8,819.70**
	Transaction costs	4,597.95	**5,284.71**
	Interest expenses	–	**–**
	Asset impairment losses	–	**–**
	Other expenses	93,482.03	**50,708.01**
III.	**Net profit (net losses indicated in "-")**	1,560,203.06	**1,101,752.13**
IV.	**Other comprehensive income**	5,638.00	**1,078.29**
V.	**Comprehensive income**	1,565,841.06	**1,102,830.42**
VI.	**Undistributed profit at the beginning of the period**	451,649.86	**468,058.83**
VII.	**Distributed trust profit for the period**	1,549,432.09	**1,324,021.53**
VIII.	**Undistributed profit at the end of the period**	468,058.83	**246,867.72**

MANAGEMENT OF TRUST ASSETS

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

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Collective	11,261,865.93	**10,088,200.42**
Individual	15,523,059.51	**12,913,882.29**
Property right	382,572.54	**748,593.93**
Total	27,167,497.98	**23,750,676.64**

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

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Financing	4,831,388.14	**4,222,666.28**
Investment	2,964,479.46	**4,743,135.51**
Administrative	18,544,895.76	**14,226,361.28**
Total	26,340,763.36	**23,192,163.07**

Collective and individual fund trust scheme and property right fund trust scheme which have been settled for the year

Unit: RMB0'000

Types of settled trust scheme	Number of scheme	Total amount of paid-up trust	Weighted average actual annualised yield rate
Collective	99	2,979,052.07	5.83%
Individual	287	6,830,430.55	7.17%
Property right	2	31,751.88	1.77%

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

Financing, investment, and administrative management trusts scheme settled this year

Unit: RMB0'000

Types of settled trust scheme	Number of scheme	Total amount of paid-up trust	Weighted average actual annualised return rate	Weighted average actual annualised yield rate
Financing	56	2,243,180.00	1.21%	5.87%
Investment	65	752,243.00	0.96%	8.37%
Administrative	267	6,845,811.50	0.21%	8.32%

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

Unit: RMB0'000

Newly-added trust scheme	**Number of scheme**	**Total amount of paid-up trust**
Collective	293	5,549,572.06
Individual	202	2,576,842.12
Property right	16	532,629.25
Total of newly-added scheme	511	8,659,043.43
Including: actively managed	253	4,003,729.10
administratively managed	258	4,655,314.33

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

Unit: RMB0'000

	Connected transactions between trust and connected parties			
	Amount at the beginning of the period	**Amount from borrowers**	**Amount from lenders**	**Amount at the end of the period**
Loans	680,496	98,000	436,596	**341,900**
Investment	61,603	3,500	2,203	**62,900**
Leasing	–	–	–	**–**
Guarantee	–	–	–	**–**
Accounts receivable	–	–	–	**–**
Others	130,000	–	50,000	**80,000**
Total	872,099	101,500	488,799	**484,800**

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

Unit: RMB0'000

	Transactions between proprietary properties and trust properties		
Item	**Amount at the beginning of the period**	**Net amount for the period**	**Amount at the end of the period**
Total	469,532	201,706	**671,238**

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

Unit: RMB 0'000

	Transactions between trust assets and trust properties		
Item	**Amount at the beginning of the period**	**Net amount for the period**	**Amount at the end of the period**
Total	206,508	(57,673)	**148,835**

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

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

OPINION

What we have audited

The consolidated financial statements of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 158 to 296, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Consolidation assessment of trust schemes
- Expected credit loss ("ECL") of loans to customers

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of trust schemes Refer to note 2.4, 2.7, 3(c) and 38 to the consolidated financial statements. The Group has managed or invested in a number of trust schemes. As at 31 December 2018, among all these trust schemes, total volume of approximately RMB8,784 million were consolidated by the Group while RMB223,138 million were not consolidated. Management performed assessment on each of the three elements of control (power to direct relevant activities of trust schemes, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the trust schemes) in accordance with International Financial Reporting Standard No. 10 – Consolidated Financial Statements ("IFRS 10"), to determine whether the trust schemes managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acted as a principal, the Group controlled the trust schemes and the trust schemes should be consolidated.	We obtained understanding of the management's controls over the consolidation assessment of trust schemes. In addition, we selected samples of trust schemes that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of trust schemes: 1. Understood the purpose and design of the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these trust schemes; 2. Inspected contract terms related to the Group's variable returns from these selected trust schemes, including management fee, direct investment and liquidity support, agreed this information to the corresponding inputs used in management's assessment on the variable returns; 3. Recalculated the variable returns to the Group from these trust schemes based on the contract terms;

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area because the amount of the trust schemes with which the Group had involvement was significant and the consolidation assessment of these trust schemes involved significant judgments.	4. Assessed the Group's role in the trust schemes as a principal or an agent through analysing the Group's ability to use its power to affect its variable returns from the trust schemes, benchmarking the level of variable returns that concludes the Group to be a principal against the guidance in IFRS 10. Based on the work undertaken above, we found the consolidation assessment of trust schemes performed by management was acceptable.
Expected credit loss ("ECL") of loans to customers Refer to note 2.16.1(ii), 3(a), 14, 21(b) and 43.1 to the consolidated financial statements As at 31 December 2018, the Group's gross loans to customers amounted to RMB7,758 million, and a loss allowance of RMB602 million was recognised in the Group's consolidated statement of financial position. The impairment losses on loans and advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB178 million. The balances of loss allowances for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses using the models requirement under International Financial Reporting Standard No. 9 – Financial Instruments ("ECL Models").	We understood the management's approach in calculating ECL and management's key controls over the measurement of expected credit losses for loans and advances to customers. In addition, we have performed the following procedures: 1. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, model selection, key parameters estimation, significant judgements and assumptions in relation to the models; 2. We assessed management's criteria for determining whether or not there was a significant increase in credit risk, or loans that were default or credit impaired. In addition, we selected samples, in consideration of the financial and non-financial information of the borrowers, relevant external evidence and other factors, to validate the appropriateness of the management's identification of significant increase in credit risk, default and credit-impaired loans;

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group assesses whether the credit risk of loans to customers has increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For loans to customers in stage 1 and 2, management assesses loss allowance that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For loans to customers in stage 3, management assesses loss allowance by estimating the cash flows from the loans. The measurement model of expected credit losses involves significant management judgments and assumptions, primarily including the following: • Choosing appropriate model and assumptions for the measurement of ECL; • Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; • Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; • The estimated future cash flows for loans to customers in stage 3. For measuring expected credit losses, the Group adopted complex model, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, the loss allowance and provision accrued were significant. In view of these reasons, we identified this as a key audit matter.	3. For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis; 4. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness; 5. We examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance of loans to customers in stage 3. Based on our procedures performed, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results of ECL were considered acceptable.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December 2018	2017
Fee and commission income	5	**891,301**	1,129,771
Interest income	6	**647,511**	490,698
Net changes in fair value on financial assets at fair value through profit or loss	7	**(32,274)**	1,793
Investment (loss)/income	8	**(25,231)**	21,148
Net gains on disposal of associates held by consolidated structured entities	9	**160,851**	–
Other operating income	10	**52,348**	4,487
Total operating income		**1,694,506**	1,647,897
Interest expenses	11	**(192,801)**	(167,731)
Staff costs (including directors and supervisors' emoluments)	12	**(125,519)**	(175,737)
Operating lease payments		**(11,661)**	(9,336)
Depreciation and amortisation		**(8,106)**	(9,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**(19,754)**	1,831
Tax and surcharges		**(12,978)**	(14,559)
Other operating expenses		**(73,330)**	(90,695)
Auditor's remuneration		**(1,792)**	(2,358)
Loan impairment charges and other credit risk provision	14	**(220,822)**	(199,922)
Impairment losses on other assets	15	**(33,093)**	(28,536)
Total operating expenses		**(699,856)**	(696,158)
Share of profit of investments accounted for using the equity method		**132,197**	167,675
Operating profit before income tax		**1,126,847**	1,119,414
Income tax expense	16	**(254,599)**	(224,609)
Net profit attributable to shareholders of the Company		**872,248**	894,805

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December 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**	(19,914)
Share of other comprehensive income from investments accounted for using the equity method	33	**6,050**	(6,838)
Income tax relating to components of other comprehensive income		**–**	4,978
Total other comprehensive income, net of tax		**6,050**	(21,774)
Total comprehensive income attributable to shareholders of the Company		**878,298**	873,031
Basic and diluted earnings per share attributable to the shareholders of the Company *(in RMB yuan)*	17	**0.34**	0.44
Total comprehensive income for the year attributable to shareholders of the Company arises from:			
Continuing operations		**878,298**	873,031
Discontinued operations		**–**	–
		878,298	873,031

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		31 December	
	Note	**2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment	18	**130,128**	120,092
Intangible assets		**5,701**	4,617
Investments in associates	19	**2,108,781**	1,902,034
Available-for-sale financial assets	20	**N/A**	636,221
Financial assets at fair value through profit or loss	28	**1,129,884**	N/A
Loans to customers	21	**3,249,109**	3,196,960
Financial investments – amortised cost	22	**32,761**	N/A
Investments classified as loans and receivables	23	**N/A**	223,511
Advance payments	24	**160,990**	18,993
Deferred income tax assets	25	**98,256**	74,708
Other non-current assets	26	**362,569**	348,087
Total non-current assets		**7,278,179**	6,525,223
Current assets			
Cash and bank balance	27	**1,081,254**	1,172,808
Financial assets at fair value through profit or loss	28	**448,987**	485,225
Financial assets purchased under resale agreements	29	**95,100**	951,400
Loans to customers	21	**3,907,644**	2,985,472
Financial investments – amortised cost	22	**88,714**	N/A
Investments classified as loans and receivables	23	**N/A**	20,479
Trustee's remuneration receivable		**251,825**	314,999
Interest receivable		**N/A**	58,864
Other current assets	30	**460,049**	387,577
Total current assets		**6,333,573**	6,376,824
Total assets		**13,611,752**	12,902,047
Equity and liabilities			
Share capital	31	**2,588,250**	2,588,250
Capital reserve	31	**2,231,139**	2,215,637
Statutory surplus reserve	32	**767,319**	688,876
Statutory general reserve	32	**756,073**	718,772
Other reserves	33	**(1,301)**	29,449
Retained earnings		**3,199,212**	2,906,556
Total equity		**9,540,692**	9,147,540

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	31 December 2018	2017
Liabilities			
Non-current liabilities			
Salary and welfare payable		**62,697**	44,974
Net assets attributable to other beneficiaries of consolidated structured entities	35	**1,735,269**	1,204,744
Total non-current liabilities		**1,797,966**	1,249,718
Current liabilities			
Short-term borrowings	36	**450,000**	328,000
Salary and welfare payable		**18,738**	37,046
Net assets attributable to other beneficiaries of consolidated structured entities	35	**790,494**	1,482,253
Income tax payable		**188,854**	178,863
Dividend payable		**–**	4,048
Other current liabilities	37	**825,008**	474,579
Total current liabilities		**2,273,094**	2,504,789
Total liabilities		**4,071,060**	3,754,507
Total equity and liabilities		**13,611,752**	12,902,047

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

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2019 and signed on its behalf by :

Chairman and Executive Director

General Manager and Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital *(Note 31)*	Capital reserve *(Note 31)*	Statutory surplus reserve *(Note 32)*	Statutory general reserve *(Note 32)*	Other reserves *(Note 33)*	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 2.1.1)*	**–**	**–**	**–**	**–**	**(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 year	**–**	**–**	**–**	**–**	**–**	**872,248**	**872,248**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**6,050**	**–**	**6,050**
Total comprehensive income	**–**	**–**	**–**	**–**	**6,050**	**872,248**	**878,298**
Appropriation to statutory surplus reserve	**–**	**–**	**78,443**	**–**	**–**	**(78,443)**	**–**
Appropriation to statutory general reserve	**–**	**–**	**–**	**37,301**	**–**	**(37,301)**	**–**
Dividends paid *(Note 34)*	**–**	**–**	**–**	**–**	**–**	**(447,766)**	**(447,766)**
Others	**–**	**15,502**	**–**	**–**	**–**	**–**	**15,502**
Balance at 31 December 2018	**2,588,250**	**2,231,139**	**767,319**	**756,073**	**(1,301)**	**3,199,212**	**9,540,692**
Balance at 1 January 2017	2,000,000	616,289	608,527	638,423	51,223	2,426,662	6,341,124
Net profit for the year	–	–	–	–	–	894,805	894,805
Other comprehensive income for the year	–	–	–	–	(21,774)	–	(21,774)
Total comprehensive income	–	–	–	–	(21,774)	894,805	873,031
Appropriation to statutory surplus reserve	–	–	80,349	–	–	(80,349)	–
Appropriation to statutory general reserve	–	–	–	80,349	–	(80,349)	–
Dividends paid *(Note 34)*	–	–	–	–	–	(254,213)	(254,213)
Proceeds from issuance of H shares	588,250	1,599,348	–	–	–	–	2,187,598
Balance at 31 December 2017	2,588,250	2,215,637	688,876	718,772	29,449	2,906,556	9,147,540

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Profit before income tax		**1,126,847**	1,119,414
Adjustments for:			
Depreciation and amortisation		**9,146**	9,115
Loan impairment charges and other credit risk provision	14	**220,822**	199,922
Impairment losses on other assets	15	**33,093**	28,536
Fair value changes in financial assets at fair value through profit or loss		**32,274**	(1,793)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**19,754**	(1,831)
Net gains on disposal of associates held by consolidated structured entities	9	**(160,851)**	–
Share of profit of Investments accounted for using the equity method		**(132,197)**	(167,675)
Interest expense		**52,279**	16,417
Investment income from available-for-sale investments		**N/A**	(15,214)
Dividend income from FVPL		**(5,911)**	–
Net loss on disposal of property and equipment, intangible assets and other long-term assets		**20**	–
Subtotal		**1, 195,276**	1,186,891
Net change in operating assets and operating liabilities:			
Decrease/(increase) in financial assets at fair value through profit or loss		**40,746**	(177,957)
Increase in loans to customers		**(1,177,540)**	(2,321,500)
Decrease in financial investments – amortised cost		**72,983**	N/A
Increase in investments classified as loans and receivables		**N/A**	(75,966)
Decrease/(increase) in financial assets purchased under resale agreements		**856,300**	(652,500)
Net increase in other operating assets		**(291,907)**	(57,320)
Net increase in other operating liabilities		**521,653**	1,506,994
Cash from operating activities before income tax		**1,217,511**	(591,358)
Income tax paid		**(267,572)**	(280,833)
Net cash generated from/(used in) operating activities		**949,939**	(872,191)

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December 2018	2017
Cash flows from investing activities:			
Dividends received from investments accounted for using the equity method		**60,013**	55,746
Sale of available-for-sale financial assets		**N/A**	354,924
Dividends received from available-for-sale investments		**N/A**	332
Dividends received from FVPL		**5,911**	N/A
Proceeds from disposal of investments in associates		**226,659**	–
Purchase of property and equipment, intangible assets and other long-term assets		**(172,754)**	(5,102)
Purchase of available-for-sale financial assets		**N/A**	(365,875)
Purchase of FVPL		**(531,360)**	N/A
Sale of FVPL		**30,369**	N/A
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**10**	–
Investments in associates		**(312,849)**	(18,500)
Net cash (used in)/generated from investing activities		**(694,001)**	21,525
Cash flows from financing activities:			
Proceeds from issuance of H shares		**–**	2,187,598
Short-term borrowings		**1,668,000**	328,000
Repayment of short-term borrowings		**(1,546,000)**	(500,000)
Interest expense paid		**(52,279)**	(16,417)
Dividends paid to shareholders	34	**(451,814)**	(250,164)
Net cash (used in)/generated from financing activities		**(382,093)**	1,749,017
Effect of exchange rate changes on cash and cash equivalents		**34,601**	(29)
Net (decrease)/increase in cash and cash equivalents		**(91,554)**	898,322
Cash and cash equivalents at beginning of the year		**1,172,808**	274,486
Cash and cash equivalents at end of the year	27	**1,081,254**	1,172,808
Net cash flows from operating activities including:			
Interest received		**599,018**	460,969
Interest paid		**(166,682)**	(203,468)

The accompanying notes form a part of these consolidated 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 into a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi ("RMB") 2,000,000,000 (RMB1 each per registered and issued share). On 8 December 2017, the Company completed its public offering and increased its share capital to RMB2,588,250,000 and its shares were listed on The Stock Exchange of Hong Kong Limited.

The Company operates under the financial service certificate No. 00606003 from the China Banking Insurance Regulatory Commission "CBIRC" (which was formed by the China Banking Regulatory Commission and the China Insurance Regulatory Commission in April 2018 upon merger) issued in August 2015. The principal activities of the Company as approved by the CBIRC 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 38. The Company and its subsidiaries are collectively referred to as "the Group".

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group

In the current year, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 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 beginning 1 January 2018 have no material impact on the Group's consolidated 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'. The details of IFRS 9 accounting policies applicable beginning 1 January 2018 (as well as the previous IAS 39 accounting policies applied in the comparative period) are provided in Note 2.16.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

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

2. PRINCIPAL ACCOUNTING POLICIES (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

	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	28,124	–	(13,726)	**6,196,830**
Financial investments – amortised cost	N/A	194,600	–	54	**194,654**
Investments classified as loans and receivables	243,990	(243,990)	–	–	**–**
Available-for-sale financial assets	636,221	(636,221)	–	–	**–**
Other financial assets	1,109,527	(35,286)	–	(41,476)	**1,032,765**
Subtotal	10,781,603	–	197	(55,148)	**10,726,652**
Non-financial assets					
Investments accounted for using the equity method	1,902,034	–	(19,406)	–	**1,882,628**
Deferred income tax assets	74,708	–	(488)	11,061	**85,281**
Other non-financial assets	143,702	–	–	–	**143,702**
Subtotal	2,120,444	–	(19,894)	11,061	**2,111,611**
Total assets	12,902,047	–	(19,697)	(44,087)	**12,838,263**

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

2. PRINCIPAL ACCOUNTING POLICIES (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. PRINCIPAL ACCOUNTING POLICIES (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				
Addition: from other financial assets	(C)		28,124			
Remeasurement: ECL allowance					(13,726)	
Closing balance under IFRS 9						**6,196,830**
Investments classified as loans and receivables						
Opening balance under IAS 39		243,990				
Subtraction: To Financial investments – amortised 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						

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

2. PRINCIPAL ACCOUNTING POLICIES (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
Financial investments – amortised cost						
Opening balance under IAS 39		–				
Addition: from Investments classified as loans and receivables	(C)		189,110			
Remeasurement: ECL allowance					54	
Addition: from other financial assets	(C)		5,490			
Closing balance under IFRS 9						**194,654**
Other financial assets						
Opening balance under IAS 39		1,109,527				
Subtraction: To Loans	(C)		(28,124)			
Subtraction: To Financial investments – amortised cost	(C)		(5,490)			
Subtraction: To fair value through profit or loss(FVPL) (IFRS 9)	(A)		(1,672)			
Remeasurement: ECL allowance					(41,476)	
Closing balance under IFRS 9						**1,032,765**
Total financial assets measured at amortised cost		9,660,157	(56,552)		(55,148)	**9,548,457**

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

2. PRINCIPAL ACCOUNTING POLICIES (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
Fair value through profit or loss (FVPL)						
Opening balance under IAS 39		485,225				
Addition: from Investments classified as loans and receivables	(A)		54,880	197		
Addition: from Available-for-sale financial assets	(B)		636,221			
Addition: from other financial assets	(C)		1,672			
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. PRINCIPAL ACCOUNTING POLICIES (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 and ECL losses of RMB52,882 thousand was recognised 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 RMB56,552 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 RMB636,211 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 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. PRINCIPAL ACCOUNTING POLICIES (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	–	–	13,726	412,486
Financial investments – amortised cost	–	15,187	–	(54)	15,133
Investments classified as loans and receivables	16,306	(16,306)	–	–	–
Other financial assets	3,129	–	–	41,476	44,605
Total	418,195	(1,119)	–	55,148	472,224

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

2. PRINCIPAL ACCOUNTING POLICIES (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:

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 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 17	Insurance Contract	1 January 2021

IFRIC 23

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. There are no new disclosure requirements.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 New standards and interpretations not yet adopted (Continued)

Amendments to IFRS 3, IFRS11, ISA 23

The following improvements were finalised in December 2017:

- IFRS 3 – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 23 – clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

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 31 December 2018, the Group has non-cancellable operating lease commitments of RMB2,445 thousand (Note 39(b)). 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. PRINCIPAL ACCOUNTING POLICIES (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 has reviewed its operating lease and is expecting no significant impact from the adoption of the new standard on 1 January 2018.

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 amortised 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 amortised cost that does not result in the derecognition of the financial liability.

Amendments to IFRS 10 and IAS 28

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business'.

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.

IFRS 17

The Company is still assessing the impact of IFRS 17.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Financial year

The accounting year starts on 1 January and ends on 31 December.

2.3 Functional currency

The functional currency of the Company and its subsidiaries, as determined by the primary economic environment in which they operate, is RMB which is also the reporting currency of the Group.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Group and all its subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.5 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's statement of financial position, investment in subsidiaries is accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.6 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting or fair value measurement. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Company elect to measure all of its investment in an associate held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds at fair value through profit or loss in accordance with IFRS 9. Investments in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds are accounted for using the equity method of accounting.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate using equity method of accounting is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit from investments accounted for using equity method' in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.7 Structured entities

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group determines whether it is an agent or a principal in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principal if it acts primarily for itself, and therefore controls the structured entity.

Structured entities with which the Group has involvement include trust schemes, investment funds and asset management products. The Company establishes trust schemes, by virtue of which it earns fee income by providing trustee and management services to the trustors (also refer to investors) of the trust schemes. The trust schemes mainly include financing trust schemes and investment trust schemes. The Company may also make direct investments in the trust schemes it establishes and manages.

For structured entities, the Group assesses whether they should be consolidated based on the contractual terms as to whether the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated structured entities of the Group are disclosed in Note 38(b). Third-party beneficiaries' interests in the consolidated structured entities with a limited life or puttable instruments issued and are classified as liabilities in the Group's consolidated statement of financial position, and net profits or losses attributable to third-party beneficiaries are recorded in "interest expense" for consolidated financing trust schemes or "change in net assets attributable to other beneficiaries of the consolidated structured entities" for consolidated investment trust schemes.

2.8 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognised in profit or loss using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.9 Fee and commission income

The Group earns fee and commission income from trust and other businesses it provides to its customers, the majority of which relates to the trust services that are provided over a period of time. For such service, fee and commission income are recognised over that period. For other services, fee and commission income are recognised when the provision of service is completed.

2.10 Dividend income

Dividends are recognised when the right to receive payment is established.

2.11 Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other operating income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the period in which the expenses are recognised.

2.12 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, and post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labour union fees and staff education expenses.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.12 Employee benefits (Continued)

(b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programmes, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plans are recognised in profit or loss for the period in which the related payment obligation is incurred.

2.13 Current and deferred income taxes

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.14 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognised in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as, deposits with banks with original tenors less than 3 months.

2.16 Financial 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

Measurement methods (Continued)

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).

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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 Financial assets (Continued)

(i) Classification and subsequent measurement (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.

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

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.

- 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 *Financial assets (Continued)*

(i) Classification and subsequent measurement (Continued)

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.

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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 Financial assets (Continued)

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cashflows 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.

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).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.1 Financial assets (Continued)

(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.

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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.2 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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.2 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.

2.16.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.3 Determination of fair value (Continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.16.4 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to offset the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.16.5 Resale agreements

Consideration paid for financial assets purchased under resale agreements are recorded as such in the consolidated statement of financial position.

The difference between purchase and resale price is recognised as interest income in profit or loss over the term of the agreements using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39)

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into four categories – financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories – financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39) (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

The terms set out in the trust contracts of the Company's consolidated securities investment trusts require the Company to evaluate the information about their underlying financial assets and liabilities on a fair value basis together with other related financial information.

The Company has classified, at inception, all of the financial assets of the Company's consolidated securities investment trusts at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in the profit or loss in the period in which they arise.

(b) Held-to-maturity financial investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39) (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method.

Financial assets classified as loans and receivables primarily include loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. All gains and losses from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the other reserves in equity, until the financial asset is disposed or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the other reserves in equity is reclassified to the profit or loss.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive such payments is established.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39) (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(e) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets (other than those measured at fair value through profit or loss) is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the financial assets (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39) (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(e) Impairment of financial assets (Continued)

- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment. The Group separately checks all available-for-sale equity investments at the end of each reporting period. If a decline in the fair value of an equity investment is below its initial cost by 30% or more, or fair value is below cost for one year or longer at the end of the reporting period, it indicates that such an equity investment is impaired.

(i) Financial assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Financial assets and liabilities (Continued)

2.16.6 Policies applicable prior to 1 January 2018 (IAS 39) (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(e) Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the debtor's credit rating, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial assets classified as available-for-sale

When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in other comprehensive income and accumulated in the other reserve in equity, and there is objective evidence that asset is impaired, the cumulative losses previously recognised in other comprehensive income are reclassified to the profit or loss in the period in which the impairment takes place.

An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. Impairment losses recognised for equity instruments classified as available-for-sale are not reversed through profit or loss. The fair value of the equity instruments increases in a subsequent period after an impairment loss has been recognised is recognised directly in other comprehensive income.

Financial liabilities

The Group's financial liabilities are measured at amortised cost, using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 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 2.16.1); 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 2.16.1). 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 31 December 2018, the Group did not have financial guarantee contracts and loan commitments (31 December 2017: None).

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.18 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values rates and annual depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20–40 years	3%	2.43%–4.85%
Motor vehicles	8 years	3%	12.13%
Equipment	3–5 years	3%	19.40%–32.33%
Furniture and others	5–10 years	3%	9.70%–19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.22.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.18 Property, plant and equipment (Continued)

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

2.19 Land use rights

Land use rights are initially recognised at costs and amortised using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.22.

2.20 Intangible assets

The intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.22.

Intangible assets of the Group mainly include computer software which is amortised over 5 years.

2.21 Foreclosed assets

When the Group's obligor uses foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised at fair value.

Impairment losses on foreclosed assets are accounted for in accordance with the accounting policies as set out in Note 2.22.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.22 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

2.23 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.24 Leases

Leases in which substantially all the risk and rewards of the ownership are transferred to the lessee are classified as financing lease. Other leases are operating lease.

Rental payments of operating lease are recognised in profit or loss according to the method of straight line during the lease term.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.26 Segment reporting

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group has determined the management team represented by the general manager as its chief operating decision maker.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

(a) 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 43.1, 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:

- Choosing appropriate model and assumptions for the measurement of ECL;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- The estimated future cash flows for loans to customers in stage 3.

Critical accounting estimates applicable prior to 1 January 2018

The Group regularly reviews its loan portfolios to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio of loans. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans to customers are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(b) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, and discounted cash flow analysis. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates, share price and index, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(c) Determination of control over trust schemes

Where the Company acts as trustee and asset manager of trust schemes it established, the Company makes judgement on whether it is the principal or an agent to assess whether the Company controls the trust schemes and should consolidate them. When performing this assessment, the Company considers several factors including, among other things, the scope of its decision-making authority over the trust schemes, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the trustee and management services, the Company's exposure to variability of returns from other interests that it holds in the trust schemes, for example direct investments. The Group performs re-assessment when the factors change.

(d) Income taxes

The Group is subject to income taxes and significant judgement is required in determining provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Taxation matters are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

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

4 TAXATION

The main categories and rates of taxes applicable to the Company are set out below:

Type of tax	**Tax rate**	**Tax base**
Enterprise income tax	25%	Taxable income
Value added tax ("VAT")	3%*(i)*/6%	Tax payable is calculated using the taxable income multiplied by the applicable tax rate ("output VAT") less deductible input VAT of current period
Urban maintenance and construction tax	7%	Value added tax or business tax
Educational surcharges	3%	Value added tax or business tax

(i) 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 is subject to VAT which is calculated at the rate of 3% of taxable investment income of trust schemes from 1 January 2018.

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
Fee and commission income		
Trustee's remuneration	**888,535**	1,125,510
Others	**2,766**	4,261
Total	**891,301**	1,129,771

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

6 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income from		
Cash and bank balance	**11,692**	2,003
Loans to customers	**601,806**	448,124
Investments classified as financial investments – amortised cost	**10,244**	N/A
Investments classified as loans and receivables	**N/A**	16,024
Financial assets purchased under resale agreements	**17,888**	18,374
Contribution to Trust Industry Protection Fund on behalf of trust schemes *(i)*	**5,881**	6,173
Total	**647,511**	490,698

(i) The amount represents the interest received in respect of contribution to the Trust Industry Protection Fund in connection with financing trust schemes.

7 NET CHANGES IN FAIR VALUE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2018	2017
Net changes in fair value on financial assets at fair value through profit or loss from:		
Listed shares	**4,921**	(33,066)
Mutual funds	**(61,487)**	(3,760)
Other	**24,292**	38,619
Total	**(32,274)**	1,793

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

8 INVESTMENT (LOSS)/INCOME

	Year ended 31 December	
	2018	2017
Dividends income from:		
Financial assets at fair value through profit or loss	**5,911**	N/A
Available-for-sale equity investments	**N/A**	332
Net realised (losses)/gains from:		
Financial assets at fair value through profit or loss	**(31,142)**	5,933
Available-for-sale financial assets	**N/A**	14,883
Total	**(25,231)**	21,148

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

	Year ended 31 December	
	2018	2017
Shanghai Ruize Investment Co., Ltd. (“Shanghai Ruize”) *(i)*	**155,357**	–
Tailong Health Industry Investment Company Limited (“Tailong Health”) *(ii)*	**5,494**	–
Total	**160,851**	–

(i) In June 2018, the Group disposed of all its equity interest in Shanghai Ruize 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)

10 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Government grants *(i)*	**16,440**	2,000
Foreign exchange gain	**34,601**	–
Other miscellaneous income	**1,307**	2,487
Total	**52,348**	4,487

(i) Government grants for the years ended 31 December 2018 and 2017 mainly represent the amounts received for rewarding the Group's contribution to the development of local economy.

11 INTEREST EXPENSE

	Year ended 31 December	
	2018	2017
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	**53,259**	16,417
Interest for placement from banks	**408**	–
Third-party beneficiaries' interests *(i)*	**139,134**	151,314
Total	**192,801**	167,731

(i) These interests represent contractual returns attributable to third-party beneficiaries of the consolidated financing trust schemes, after offsetting the impairment losses attributable to third-party beneficiaries. Third-party beneficiaries' interests in the consolidated trust schemes have been accounted for as net assets attributable to other beneficiaries of consolidated structured entities in the consolidated statements of financial position (Note 38).

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

12 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Year ended 31 December	
	2018	2017
Salaries and bonuses	**92,832**	148,771
Pension costs (defined contribution plans)	**11,337**	9,047
Housing funds	**5,119**	4,063
Labour union fee and staff education expenses	**2,027**	2,651
Other social security and benefit costs	**14,204**	11,205
Total	**125,519**	175,737

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

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

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

	Year ended 31 December 2018				
Name	**Fees**	**Salaries and allowances and benefits**	**Discretionary bonuses**	**Contribution to pension schemes**	**Total**
Executive Director					
Wan Zhong *(i)*	–	599	1,850	148	2,597
Yue Zengguang *(ii)*	–	160	315	9	484
Wang Yingli *(iii)*	–	–	–	–	–
Non-Executive Directors *(viii)*					
Xiao Hua	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing	100	–	–	–	100
Supervisors *(ix)*					
Yang Gongmin *(iv)*	–	–	–	–	–
Guo Shougui *(v)*	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Chen Yong	–	–	–	–	–
Wu Chen	–	–	–	–	–
Wang Zhimei *(vi)*	–	–	–	–	–
Guan Wei	–	–	–	–	–
Wang Yuepu *(vii)*	–	–	–	–	–
Wang Zhimei	–	–	–	–	–
Tian Zhiguo *(x)*	–	1,400	758	93	2,251
Zuo Hui *(x)*	–	429	495	82	1,006
Li Aiping *(x)*	–	411	396	82	889
Total	300	2,999	3,814	414	7,527

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

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

(i) Wan Zhong has been appointed as the chairperson of the Company by the Board in July 2018, and his qualification to act as the chairperson has been approved by the Shandong Office of CBIRC and took effect from 9 January 2019. Wan Zhong is also an employee of the Company and his emolument disclosed above only includes that for services as an employee.

(ii) Yue Zengguang was elected executive director effective in August 2018. Yue Zengguang is also an employee of the Company and his emolument disclosed above only includes that for services as an employee.

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

(iv) Yang Gongmin ceased to be supervisor effective in July 2018.

(v) Guo Shougui was elected supervisor effective in July 2018.

(vi) Wang Zhimei was elected supervisor effective in July 2018.

(vii) Wang Yuepu ceased to be supervisor effective in July 2018.

(viii) These Non-executive Directors of the Company did not receive any fees from the Company.

(ix) The non-employee Supervisors of the Company did not receive any fees from the Company.

(x) These Supervisors are the employees of the Company and their emoluments disclosed above only include fees for their services as empolyees.

Discretionary bonuses are based on the business performance.

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

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

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

	Year ended 31 December 2017				
Name	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
Executive Director					
Wang Yingli	–	–	97	–	97
Wan Zhong	–	585	1,956	122	2,663
Non-Executive Directors					
Xiao Hua *(i)*	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Wang Liang *(ii)*	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing	100	–	–	–	100
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	1,481	1,447	77	3,005
Li Aiping	–	393	493	68	954
Zuo Hui	–	393	684	68	1,145
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Guan Wei *(iii)*	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Ding Jian *(iv)*	–	–	–	–	–
Total	300	2,852	4,677	335	8,164

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

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

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

(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.

(b) Five highest paid individuals

For the year ended 31 December 2018 the five highest paid individuals in the Group do not include any director or supervisor, whose emoluments have been disclosed in Note 13(a) (for the year ended 31 December 2017: no director and supervisor).

The aggregated emoluments of the five highest paid individuals for the the year ended 31 December 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
Salaries and allowances and benefits	**8,663**	12,718
Discretionary bonuses	**13,308**	25,654
Contribution to pension schemes	**487**	369
Total	**22,458**	38,741

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

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

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of Individuals Year ended 31 December	
	2018	2017
RMB500,001 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**–**	–
RMB1,500,001 – RMB2,000,000	**–**	–
RMB2,000,001 – RMB2,500,000	**–**	–
RMB2,500,001 – RMB3,000,000	**–**	–
RMB3,000,001 – RMB3,500,000	**1**	–
RMB3,500,001 – RMB4,000,000	**1**	–
RMB4,000,001 – RMB4,500,000	**2**	1
RMB4,500,001 – RMB5,000,000	**–**	–
RMB5,000,001 – RMB5,500,000	**–**	–
RMB5,500,001 – RMB6,000,000	**–**	1
Over RMB6,000,000	**1**	3
Total	**5**	5

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

14 LOAN IMPAIRMENT CHARGES AND OTHER CREDIT RISK PROVISION

	Year ended 31 December	
	2018	2017
Loans to customers	**178,092**	187,303
Financial investments – amortised cost	**10,709**	N/A
Investments classified as loans and receivables	**N/A**	12,619
Trustee's remuneration receivable	**(1,612)**	–
Others	**33,633**	–
Total	**220,822**	199,922

15 IMPAIRMENT LOSSES ON OTHER ASSETS

	Year ended 31 December	
	2018	2017
Available-for-sale financial assets	**N/A**	28,536
Art investment	**25,426**	–
Investments accounted for using the equity method	**7,667**	–
Total	**33,093**	28,536

16 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current income tax	**267,574**	275,854
Deferred income tax *(Note 25)*	**(12,975)**	(51,245)
Total	**254,599**	224,609

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.

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

16 INCOME TAX EXPENSE (CONTINUED)

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2018	2017
Profit before income tax	**1,126,847**	1,119,414
Tax calculated at a tax rate of 25%	**281,712**	279,853
Tax effect arising from income not subject to tax *(i)*	**(45,697)**	(68,387)
Tax effect of expenses that are not deductible for tax purposes *(ii)*	**18,584**	13,143
Income tax expense	**254,599**	224,609

(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.

17 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Company	**872,248**	894,805
Weighted average number of ordinary shares in issue	**2,588,250**	2,038,679
Basic earnings per share	**0.34**	0.44

(b) Diluted earnings per share

For the years ended 31 December 2017 and 2018, 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)

18 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Equipment	Furniture and others	Construction in progress	Total
Cost						
At 1 January 2018	**138,374**	**3,847**	**10,809**	**2,328**	**–**	**155,358**
Additions	**–**	**–**	**1,084**	**1,081**	**15,784**	**17,949**
Disposals	**–**	**–**	**(1,022)**	**–**	**–**	**(1,022)**
At 31 December 2018	**138,374**	**3,847**	**10,871**	**3,409**	**15,784**	**172,285**
Accumulated depreciation						
At 1 January 2018	**(24,864)**	**(3,097)**	**(6,797)**	**(508)**	**–**	**(35,266)**
Charge for the year	**(5,739)**	**(252)**	**(1,625)**	**(267)**	**–**	**(7,883)**
Disposals	**–**	**–**	**992**	**–**	**–**	**992**
At 31 December 2018	**(30,603)**	**(3,349)**	**(7,430)**	**(775)**	**–**	**(42,157)**
Net book value						
At 31 December 2018	**107,771**	**498**	**3,441**	**2,634**	**15,784**	**130,128**
Cost						
At 1 January 2017	138,374	3,847	8,965	852	–	152,038
Additions	–	–	1,844	1,476	–	3,320
Disposals	–	–	–	–	–	–
At 31 December 2017	138,374	3,847	10,809	2,328	–	155,358
Accumulated depreciation						
At 1 January 2017	(19,124)	(2,727)	(5,228)	(443)	–	(27,522)
Charge for the year	(5,740)	(370)	(1,569)	(65)	–	(7,744)
Disposals	–	–	–	–	–	–
At 31 December 2017	(24,864)	(3,097)	(6,797)	(508)	–	(35,266)
Net book value						
At 31 December 2017	113,510	750	4,012	1,820	–	120,092

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

19 INVESTMENTS IN ASSOCIATES

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

	31 December	
	2018	2017
Associates of the Company using equity method of accounting		
Fullgoal Fund Management Co., Ltd. *(i)*	**565,995**	473,176
Dezhou Bank Co., Ltd. ("Dezhou Bank") *(ii)*	**150,010**	139,152
First-Trust Fund Management Co., Ltd. ("First-trust FMC") *(iii)*	**68,833**	105,642
Shandong HOWO Auto Finance Co., Ltd. *(iv)*	**192,474**	169,887
Zouping SPD Rural Bank Co., Ltd. *(ix)*	**8,510**	26,157
Taishan Property & Casualty Insurance Co., Ltd. *(v)*	**207,147**	211,147
Shandong LuXin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) *(vi)*	**52,000**	NA
Anhui LuXin Equity Investment Fund Management Co., Ltd. *(ix)*	**1,250**	NA
Gross amount	**1,246,219**	1,125,161
Less: Impairment allowance	**–**	–
Associates of the Company, net	**1,246,219**	1,125,161
Associates of the Company's certain consolidated structured entities using equity method of accounting		
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") *(vii)*	**621,044**	618,730
Tailong Health Industry Investment Company Limited ("Tailong Health") *(viii)*	**52,100**	80,000
Others *(ix)*	**33,391**	78,143
Gross amount	**706,535**	776,873
Less: Impairment allowance *(ix)*	**(7,667)**	–
Associates of the Company's certain consolidated structured entities using equity method of accounting, net	**698,868**	776,873
Associates indirectly held by the Group through trust schemes, measured at fair value *(x)*		
Shenzhen Qianhai Run Xin Investment Co., Ltd.	**18,900**	–
Henan Liang Ding Property Co., Ltd.	**94,650**	–
Liaocheng Liang Hong Property Co., Ltd.	**50,144**	–
Gross amount	**163,694**	–
Total	**2,108,781**	1,902,034

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates

Set out below are the associates of the Group as at 31 December 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	2.37%	Equity
First-Trust FMC *(iii)*	Shanghai, China	45.00%	Equity
Shandong HOWO Auto Finance Co., Ltd. *(iv)*	Shandong, China	10.00%	Equity
Taishan Property & Casualty Insurance Co., Ltd. *(v)*	Shandong, China	9.85%	Equity
Shandong LuXin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) *(vi)*	Shandong, China	26.00%	Equity
Shandong AMC *(vii)*	Shandong, China	7.24%	Equity
Tailong Health *(viii)*	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%, 2.37%,10.00%, 9.85% and 7.24% of the voting rights respectively.

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(i) Fullgoal Fund Management Co., Ltd.

Summarised balance sheet

	31 December	
	2018	2017
Current assets	**4,029,527**	3,460,735
Non-current assets	**653,770**	720,294
Total assets	**4,683,297**	4,181,029
Current liabilities	**(930,333)**	(1,014,238)
Non-current liabilities	**(358,691)**	(329,152)
Total liabilities	**(1,289,024)**	(1,343,390)
Net assets	**3,394,273**	2,837,639

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
Revenue	**2,383,633**	2,345,092
Profit from continuing operations	**924,633**	947,517
Post-tax profit from continuing operations	**701,332**	714,978
Other comprehensive income	**5,302**	(5,983)
Total comprehensive income	**706,634**	708,995
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)

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(i) Fullgoal Fund Management Co., Ltd. (Continued)

Reconciliation of summarised financial statements

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

Summarised financial statements

	31 December	
	2018	2017
Net assets at the beginning of the year	**2,837,639**	2,458,644
Profit for the year	**701,332**	714,978
Dividend distribution	**(150,000)**	(330,000)
Other comprehensive income	**5,302**	(5,983)
Net assets at the end of the year	**3,394,273**	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	**565,995**	473,176

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(ii) Dezhou Bank

Summarised balance sheet

	31 December	
	2018	2017
Total assets	**48,845,953**	45,317,441
Total liabilities	**(44,459,696)**	(41,841,237)
Net assets	**4,386,257**	3,476,204

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
Revenue	**1,241,481**	935,131
Profit from continuing operations	**277,298**	89,712
Post-tax profit from continuing operations	**183,312**	67,284
Other comprehensive income	**118,966**	(143,515)
Total comprehensive income	**302,278**	(76,231)
Dividends received from the associate	**–**	–

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial statements

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

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(ii) Dezhou Bank (Continued)

Summarised financial statements

	31 December	
	2018	2017
Net assets at the beginning of the year	**3,251,204**	3,327,428
Profit for the year	**183,312**	67,284
Dividend distribution	**–**	–
Other comprehensive income	**118,966**	(143,515)
Capital contribution received	**1,095,794**	7
Others	**(263,019)**	–
Net assets at the end of the year	**4,386,257**	3,251,204
Percentage of the Group's interests in the associate	**2.37%**	4.28%
Carrying amount of the Group's interest in the associate	**150,010**	139,152

Note: Dezhou Bank increased its registered capital to RMB1,625 million on 30 December 2018 and diluted the Company's share from 3.42% to 2.37%. The event does not have material impact on the investment income picked up by the Company for the year ended 31 December 2018.

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(iii) First-Trust FMC

Summarised balance sheet

	31 December 2018	31 December 2017
Current assets	**274,025**	240,186
Non-current assets	**184,200**	212,396
Total assets	**458,225**	452,582
Current liabilities	**(28,926)**	(139,059)
Non-current liabilities	**(276,337)**	(78,764)
Total liabilities	**(305,263)**	(217,823)
Net assets	**152,962**	234,759

Summarised statement of comprehensive income

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	**40,910**	84,960
Loss from continuing operations	**(73,499)**	(27,303)
Post-tax loss from continuing operations	**(81,799)**	(23,203)
Other comprehensive income	**–**	1,661
Total comprehensive income	**(81,799)**	(21,542)
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)

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in 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

	31 December	
	2018	2017
Net assets at the beginning of the year	**234,761**	256,303
Loss for the year	**(81,799)**	(23,203)
Other comprehensive income	**–**	1,661
Net assets at the end of the year	**152,962**	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	**68,833**	105,642

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(iv) Shandong HOWO Auto Finance Co., Ltd.

Summarised balance sheet

	31 December 2018	31 December 2017
Current assets	**5,181,016**	3,571,166
Non-current assets	**2,219,011**	1,964,553
Total assets	**7,400,027**	5,535,719
Current liabilities	**(5,603,606)**	(4,969,430)
Non-current liabilities	**–**	–
Total liabilities	**(5,603,606)**	(4,969,430)
Net assets	**1,796,421**	566,289

Summarised statement of comprehensive income

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	**532,529**	269,195
Profit from continuing operations	**205,250**	80,098
Post-tax profit from continuing operations	**157,031**	59,610
Other comprehensive income	**–**	–
Total comprehensive income	**157,031**	59,610

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)

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(iv) Shandong HOWO Auto Finance Co., Ltd. (Continued)

Reconciliation of summarised financial statements

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

Summarised financial statements

	31 December	
	2018	2017
Net assets at the beginning of the year	**566,289**	506,679
Profit for the year	**157,031**	59,610
Capital contribution received	**1,073,101**	–
Dividend distribution	**–**	–
Other comprehensive income	**–**	–
Net assets at the end of the year	**1,796,421**	566,289
Percentage of the Group's interests in the associate	**10.00%**	30.00%
Carrying amount of the Group's interest in the associate	**192,474**	169,887

Note: Shandong HOWO Auto Finance Co., Ltd. obtained additional capital contribution from other investors on 18 December 2018 which increased its share capital to RMB1, 500 million. The Company's share was diluted from 10.71% to 10% as a result. The event does not have material impact on the investment income picked up by the Company for the year ended 31 December 2018.

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(v) Taishan Property & Casualty Insurance Co., Ltd.

Summarised balance sheet

	31 December	
	2018	2017
Current assets	**2,473,956**	1,948,509
Non-current assets	**1,478,074**	1,879,981
Total assets	**3,952,030**	3,828,490
Current liabilities	**(2,112,604)**	(1,912,059)
Non-current liabilities	**(7,349)**	(1,162)
Total liabilities	**(2,119,953)**	(1,913,221)
Net assets	**1,832,077**	1,915,269
Including: net assets attributable to shareholders	**1,820,843**	1,861,682

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(v) Taishan Property & Casualty Insurance Co., Ltd. (Continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
Revenue	**1,756,703**	1,690,658
Profit from continuing operations	**(47,927)**	26,370
Post-tax profit from continuing operations	**(48,900)**	25,671
Including Profit attributable to shareholders	**(49,230)**	24,298
Other comprehensive income attributable to shareholders	**8,391**	(60,647)
Total comprehensive income	**(40,509)**	(34,976)

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial statements

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

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(v) Taishan Property & Casualty Insurance Co., Ltd. (Continued)

Summarised financial statements

	31 December	
	2018	2017
Net assets attributable to shareholders at the beginning of the year	**1,861,682**	1,898,031
(Loss)/Profit for the year attributable to shareholders	**(49,230)**	24,298
Other comprehensive income attributable to shareholders	**8,391**	(60,647)
Net assets at the end of the year	**1,820,843**	1,861,682
Percentage of the Group's interests in the associate	**9.85%**	9.85%
Carrying amount of the Group's interest in the associate	**207,147**	211,147

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(vi) Shandong LuXin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership)

Summarised balance sheet

	31 December 2018
Current assets	190,020
Non-current assets	10,000
Total assets	**200,020**
Current liabilities	(50)
Non-current liabilities	–
Total liabilities	**(50)**
Net assets	**199,970**

Summarised statement of comprehensive income

	Year ended 31 December 2018
Revenue	–
Profit from continuing operations	(30)
Post-tax profit from continuing operations	(30)
Other comprehensive income	–
Total comprehensive income	**(30)**

The associate was newly invested on 12 November 2018, the summarised statement of comprehensive income of the associate for the period from the investment date to the year ended 31 December 2018 is not provided as the amount is not material to the Group's financial statements.

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(vi) Shandong LuXin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) (Continued)

Reconciliation of summarised financial statements

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

Summarised financial statements

	31 December 2018
Net assets at the beginning of the year	200,000
Profit for the year	(30)
Capital contribution received	–
Dividend distribution	–
Other comprehensive income	–
Net assets at the end of the year	199,970
Percentage of the Group's interests in the associate	26.00%
Carrying amount of the Group's interest in the associate	52,000

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(vii) Shandong AMC

Summarised balance sheet

	31 December	
	2018	2017
Current assets	**19,568,316**	16,390,978
Non-current assets	**20,946,094**	18,312,318
Total assets	**40,514,410**	34,703,296
Current liabilities	**(7,141,730)**	(9,016,299)
Non-current liabilities	**(21,524,362)**	(13,879,501)
Total liabilities	**(28,666,092)**	(22,895,800)
Net assets	**11,848,318**	11,807,496
Including: Net assets attributable to Type C shareholders	**8,429,220**	8,397,252

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
Revenue	**2,512,272**	1,638,274
Profit from continuing operations	**1,040,444**	1,009,819
Post-tax profit from continuing operations	**725,063**	778,809
Including: Post-tax profit attributable to Type C shareholders	**592,158**	558,673
Other comprehensive income	**–**	21,370
Total comprehensive income	**725,063**	800,179
Dividends received/receivable from the associate	**30,922**	–

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(vii) Shandong AMC (Continued)

Reconciliation of summarised financial statements

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

	31 December 2018	31 December 2017
Net assets attributable to Type C shareholders at the beginning of the period	**8,397,252**	7,838,579
Post-tax profit attributable to Type C shareholders	**592,158**	558,673
Profit distribution	**(483,700)**	–
Other Comprehensive Income	**–**	–
Others	**(76,490)**	–
Closing net assets attributable to Type C shareholders	**8,429,220**	8,397,252
Percentage of the Group's interests in the associate	**7.24%**	7.24%
Group's share in the associate	**609,939**	607,625
Goodwill	**11,105**	11,105
Carrying amount of the Group's interest in the associate	**621,044**	618,730

Note: The Group invests in the Type C shares of Shandong AMC. Shandong AMC's profit distribution is not proportional to each shareholder's ownership percentage. For type A and B shareholders, if Shandong AMC decides to distribute its profit, they are entitled only to a fixed rate of return. A certain portion of the remaining distributable profit will be further distributed to Type C shareholders. Thus, only movement of net assets attributable to Type C shareholders is disclosed.

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(viii) Tailong Health

Summarised balance sheet

	31 December	
	2018	2017
Current assets	**12,226**	90,734
Non-current assets	**204,542**	99,946
Total assets	**216,768**	190,680
Current liabilities	**(8,196)**	(75)
Non-current liabilities	**(10,400)**	(11,700)
Total liabilities	**(18,596)**	(11,775)
Net assets	**198,172**	178,905

Summarised statement of comprehensive income

	Year ended 31 December	
	2018	2017
Revenue	**698**	1,837
Loss from continuing operations	**(732)**	(73)
Post-tax loss from continuing operations	**(732)**	(73)
Other comprehensive income	**–**	–
Total comprehensive income	**(732)**	(73)

Reconciliation of summarised financial statements

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

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

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(viii) Tailong Health (Continued)

Summarised financial statements

	31 December	
	2018	2017
Net assets at the beginning of the year	**178,904**	178,977
Loss for the year	**(732)**	(73)
Capital contribution received	**20,000**	–
Dividend distribution	**–**	–
Other comprehensive income	**–**	–
Closing net assets	**198,172**	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 its 13.95% of the equity interest of 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)

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) Investment in associates (Continued)

(ix) Summarised financial statements for insignificant associates using equity method of accounting

	31 December	
	2018	2017
Carrying amount at the beginning of the year	**104,300**	90,869
Acquisition during the year	**1,250**	18,500
Disposal during the year *(Note 9 (i))*	**(43,643)**	–
Share of net profits for the year	**(16,143)**	(4,351)
Impairment allowance	**(7,667)**	–
Cash dividend receivable/received	**–**	(718)
Others	**(2,613)**	N/A
Carrying amount at the end of the year	**35,484**	104,300

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 associates.

(x) Associates using fair value measurement

The Company holds the investment in those associates indirectly through trust schemes. The Company elected to measure the investment in the associate at fair value through profit and loss in accordance with IFRS9.

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

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December	
	2018	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

(i) As at 31 December 2017, listed equity shares at the fair value of RMB3,799 thousand are restricted for sale until 1 August 2018.

(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 standardised 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)

20 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

21 LOANS TO CUSTOMERS

(a) Analysis of loans to customers:

	31 December	
	2018	2017
Corporate loans-at amortised cost	**7,683,391**	6,581,191
Interest receivable	**75,340**	N/A
Less: ECL allowance -Loans	**(600,424)**	N/A
ECL allowance -Interest receivable	**(1,554)**	N/A
Collectively assessed	**N/A**	(114,726)
Individually assessed	**N/A**	(284,033)
Loans to customers, net	**7,156,753**	6,182,432
Presented as:		
Non-current assets	**3,249,109**	3,196,960
Current assets	**3,907,644**	2,985,472
Loans to customers, net	**7,156,753**	6,182,432

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

21 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	83,940	1,744	268,634	354,318
Reversal of impairment allowances	(144,094)	(838)	(9,000)	(153,932)
Written-off	–	–	–	–
Transfers:	68,167	10,145	(78,312)	–
Transfer from Stage 1 to Stage 2	(10,145)	10,145	–	–
Transfer from Stage 1 to Stage 3	(1,668)	–	1,688	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	79,980	–	(79,980)	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	(5)	–	11,404	11,399
ECL, PD and LGD changes	(17,371)	(5,818)	–	(23,189)
Loss allowance as at 31 December 2018	108,968	21,137	470,319	600,424

	Year Ended 31 December 2017 Collective impairment	Individual impairment
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)

21 LOANS TO CUSTOMERS (CONTINUED)

(c) Movement of principals

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018 (Restated)	5,386,300	350,000	844,891	6,581,191
Additions	4,306,100	10,500	874,400	5,191,000
Repayments	(3,737,400)	(64,000)	(329,000)	(4,130,400)
Written-off	–	–	–	–
Transfers:	(350,900)	380,000	(29,100)	–
Transfer from Stage 1 to Stage 2	(380,000)	380,000	–	–
Transfer from Stage 1 to Stage 3	(70,900)	–	70,900	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	100,000	–	(100,000)	–
Other transfers	27,400	–	14,200	41,600
Balance as at 31 December 2018	5,631,500	676,500	1,375,391	7,683,391

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

22 FINANCIAL INVESTMENTS – AMORTISED COST

(a) Analysis of financial investments – amortised cost:

	31 December 2018	2017
Financial investments – amortised cost, gross *(i)*	**131,314**	N/A
Interest receivable	**4,605**	N/A
Less: ECL allowance – Financial investments – amortised cost	**(14,349)**	N/A
Less: ECL allowance – Interest receivable	**(95)**	N/A
Financial investments – amortised cost, net	**121,475**	N/A
Presented as:		
Non-current assets	**32,761**	N/A
Current assets	**88,714**	N/A
Financial investments – amortised cost, net	**121,475**	N/A

(i) Financial investments – amortised 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.

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

22 FINANCIAL INVESTMENTS – AMORTISED COST (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)	1,813	1,788	11,404	15,005
Provision for impairment	–	–	13,087	13,087
Reversal of impairment allowances	(2,189)	(155)	–	(2,344)
Written-off	–	–	–	–
Transfers:	1,633	(1,633)	–	–
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	1,633	(1,633)	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	5	–	(11,404)	(11,399)
ECL, PD and LGD changes	–	–	–	–
Loss allowance as at 31 December 2018	1,262	–	13,087	14,349

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

22 FINANCIAL INVESTMENTS – AMORTISED COST (CONTINUED)

(c) Movement of principals

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018 (Restated)	101,567	37,530	65,200	204,297
Additions	51,400	–	–	51,400
Repayments	(40,567)	(10,930)	(30,286)	(81,783)
Written-off	–	–	–	–
Transfers:	26,600	(26,600)	–	–
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	26,600	(26,600)	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Other transfers	(27,400)	–	(15,200)	(42,600)
Balance as at 31 December 2018	111,600	–	19,714	131,314

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

23 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

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

	31 December 2018	31 December 2017
Investments classified as loans and receivables, gross *(i)*	**N/A**	260,296
Less: Allowance for impairment losses		
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 beginning of the period	3,687	–
Net impairment allowances charged to profit or loss	1,215	11,404
Balance at end of the period	4,902	11,404

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

24 ADVANCE PAYMENTS

	31 December	
	2018	2017
Prepayment for purchasing an investment property *(i)*	**152,457**	–
Prepayment for construction projects	**342**	15,849
Other	**8,191**	3,144
Total	**160,990**	18,993

(i) During 2018, the Group made the payment for purchase of an investment property through a trust scheme. The Group is in the process of obtaining the legal title of such investment property from relevant authorities.

25 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 31 December 2018
Deferred income tax assets:					
Impairment allowances for assets	**67,435**	**11,061**	**21,596**	**–**	**100,092**
Staff Salary and welfare payable	**20,506**	**–**	**(147)**	**–**	**20,359**
Others	**544**	**–**	**86**	**–**	**630**
Sub-total	**88,485**	**11,061**	**21,535**	**–**	**121,081**
Deferred income tax liabilities:					
Fair value changes of financial assets at fair value through profit or loss	**2,665**	**(10,842)**	**12,171**	**–**	**3,994**
Fair value changes of available-for-sale financial assets	**(16,442)**	**10,354**	**6,088**	**–**	**–**
Others	**–**	**–**	**(26,819)**	**–**	**(26,819)**
Sub-total	**(13,777)**	**(488)**	**(8,560)**	**–**	**(22,825)**
Net deferred income tax assets	**74,708**	**10,573**	**12,975**	**–**	**98,256**

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

25 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	(16,442)
Subtotal	(21,559)	2,804	4,978	(13,777)
Net deferred income tax assets	18,485	51,245	4,978	74,708

26 OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Investment in art work	**45,930**	71,357
Contribution to Trust Industry Protection Fund for trust schemes *(i)*	**316,639**	276,730
Total	**362,569**	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 28.

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

27 CASH AND BANK BALANCE

(a) Cash and bank balance

	31 December	
	2018	2017
Cash in hand	**45**	62
Cash at banks	**1,081,209**	1,172,746
Total	**1,081,254**	1,172,808

(b) Cash and cash equivalents in the consolidated statements of cash flows

	31 December	
	2018	2017
Cash in hand	**45**	62
Cash at banks	**1,081,209**	1,172,746
Total	**1,081,254**	1,172,808

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

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2018	2017
Equity investments		
Listed shares	**42,482**	18,199
Mutual funds	**406,505**	81,246
Asset management products *(i)*	**133,513**	–
Equity investments in unlisted entities *(ii)*	**556,314**	32,500
Investments in trust schemes	**312,858**	353,280
Investments in Trust Industry Protection Fund *(iii)*	**92,109**	–
Wealth management products	**35,090**	–
Total	**1,578,871**	485,225
Presented as:		
Non-current assets	**1,129,884**	N/A
Current assets	**448,987**	485,225
Financial assets at fair value through profit or loss, net	**1,578,871**	485,225

(i) 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.

(ii) These equity investments includes the Company's investments in other non-listed companies without control, common control and significant influence by the Company, and investment in not listed companies through trust schemes, which the Company has significant influence and the Company has selected to measure at fair value.

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

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

(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 standardised 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 31 December 2018.

29 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December	
	2018	2017
Government bonds	**95,100**	951,400

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

30 OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Contribution to Trust Industry Protection Fund on behalf of trust schemes *(i)*	**243,640**	361,230
Settlement deposits with securities firms	**99,010**	3,482
Input VAT to be deducted	**302**	–
Others, net	**117,097**	22,865
Others, gross	**179,108**	25,994
Less: Individual impairment allowance	**N/A**	(3,129)
ECL allowance	**(62,011)**	N/A
Total	**460,049**	387,577

(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 28.

31 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.

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

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

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

31 SHARE CAPITAL AND CAPITAL RESERVE (CONTINUED)

(i) The Company issued 588,250,000 H shares with par value of RMB1 per share at offering price of HKD4.56 (equivalent to RMB3.87) per share on 8 December 2017. The excess of RMB1,688,278 thousand over the par value, net of the relevant incremental costs of RMB88,930 thousand directly attributable to issued shares, was credited to "share premium".

On 19 March 2018, the Company obtained "Approval from China Banking Regulatory Commission Shandong Office on the increase of the registered capital and the change of shareholding structure of Shandong International Trust Co., Ltd."

Generally, transactions of the following nature are recorded in the capital reserve:

- Share premium arising from the issuance of share capital at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

Capital reserve can be utilised for increasing share capital as approved by the shareholders.

The Company issued shares at share premium. The share premium was recorded in the capital reserve after deducting share issue cost which mainly include underwriting fees and professional fees.

As of 31 December 2018, the Group's capital reserve is shown as follows:

	31 December	
	2018	2017
Share premium	**2,231,139**	2,215,637

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

32 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	**78,443**	**–**
Appropriation to statutory general reserve	**–**	**37,301**
Balance at 31 December 2018	**767,319**	**756,073**
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

(i) Statutory surplus reserve

Pursuant to the relevant PRC regulations, the Company is required to transfer 10% of the Company's 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 capitalisation 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)

32 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE (CONTINUED)

(iii) Profit distribution

In accordance with a resolution of the board meeting on 22 March 2019, the Board of Directors proposed to appropriate the Company's net profit for the year ended 31 December 2018 to the statutory surplus reserve in the amount of RMB78,443 thousand；appropriations RMB37,301 thousand to the statutory general reserve. Cash dividends of RMB377,367 thousand (RMB0.081 before tax per ordinary share) based on the total number of ordinary shares of 4,658,850,000 after the Company converted the capital surplus into ordinary shares at 8 January 2019. As at 31 December 2018, the appropriation of statutory surplus reserve and statutory general reserve proposed by the Board of Directors have been recognised in the accounts for the year ended 31 December 2018 respectively. The distribution of dividends is subject to final approval by shareholders in the Annual General Meeting.

33 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)**
Share of other comprehensive income of investments accounted for using the equity method	**6,050**	**–**	**6,050**
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	**–**	**–**	**–**
Balance at 31 December 2018	**(1,301)**	**–**	**(1,301)**
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)

34 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividend declared during the year	**447,766**	254,213

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.

35 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.

36 SHORT-TERM BORROWINGS

	31 December	
	2018	2017
Borrowings from China Trust Protection Fund Co., Ltd.	**450,000**	328,000

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

37 OTHER CURRENT LIABILITIES

	31 December	
	2018	2017
Payable to National Social Security Fund *(i)*	**227,452**	227,452
Advance payment from borrowers *(ii)*	**283,692**	133,582
VAT and surtax payable for trust schemes *(iii)*	**188,882**	–
Other tax payable	**46,214**	44,494
Deferred trustee's remuneration fee income	**66,485**	37,633
Others	**12,283**	31,418
Total	**825,008**	474,579

(i) The amounts represents proceeds in relation to transfer of the Company's share to National Social Security Funds.

(ii) The amounts represents the subscription amounts collected by the Company from the borrowers of its financing trust schemes, which will then be contributed to the Trust Industry Protection Fund on behalf of such borrowers.

(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 is subject to VAT which is calculated at the rate of 3% of taxable investment income of trust schemes from 1 January 2018.

38 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 gets investment return from the trust schemes in which the Group has made direct investment. The Company considered its variable returns (being the trustee's remunerations and investment return if any, on an aggregate basis) from its involvement with these structured entities are insignificant and hence it does not consolidate these structured entities.

38 STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities that are not consolidated (Continued)

(i) Unconsolidated structured entities managed by the Company

As of 31 December 2018, the volume of unconsolidated trust schemes established and managed by the Company amounted to RMB223,138 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 RMB251,825 thousand at 31 December 2018 (31 December 2017: RMB314,999 thousand).

During the year ended 31 December 2018, the Group did not provide financial or other support to these structured entities (2017: nil).

(ii) Unconsolidated structured entities invested by the Company

As of 31 December 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 – amortised cost (31 December 2017: investments were classified as loans and receivables).

During the year ended 31 December 2018, the Group did not provide financial or other support to these structured entities (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)

38 STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities that are not consolidated (Continued)

(ii) Unconsolidated structured entities invested by the Company (Continued)

	Carrying value	Maximum exposure to loss	Total volume of structured entities
At 31 December 2018			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	**406,505**	**406,505**	**Note 1**
– Investments in trust schemes	**312,858**	**312,858**	**3,366,875**
– Asset management products managed by third parties	**133,513**	**133,513**	**Note 1**
– Trust Industry Protection Fund managed by third parties	**92,109**	**92,109**	**Note 1**
– Equity investment in unlisted entities	**556,314**	**556,314**	**1,750,000**
– Wealth management products	**35,090**	**35,090**	**Note 1**
Financial investments – amortised cost			
– Trust schemes established and managed by the Company	**121,475**	**121,475**	**722,724**
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

38 STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities that are not consolidated (Continued)

(ii) Unconsolidated structured entities invested by the Company (Continued)

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.

(b) Consolidated structured entities

Consolidated structured entities include trust schemes established and managed by the Group in which the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests that it holds in the structured entities. The underlying assets of these consolidated structured entities are mainly included in the balances of loans to customers, investments accounted for using the equity method and financial assets at fair value through profit or loss.

At 31 December 2018, the number of consolidated trust schemes established and managed by the Company were 51 (31 December 2017: 45) and total volume of consolidated trust schemes amounted to RMB8,784,368 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"). The Group has 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 sources and considering other factors such as potential reputational damage to the Company. As soon as those troubled trusts met the criteria of consolidated structured entities, the Group then consolidates these troubled trusts. As at 31 December 2018, total assets of such troubled trusts amounted to RMB1,148,303 thousand (31 December 2017: 274,078 thousand), and impairment allowance have been made amounted to RMB388,763 thousand (31 December 2017: 184,398 thousand).

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

39 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

	31 December	
	2018	2017
Contracted but not yet incurred	**10,175**	1,545

These capital commitments mainly relate to purchase of intangible assets.

On 7 December 2018, the Board approved the resolution on the Company's proposed participation in the initiation and establishment of Luxin Taihe Technology Innovation Entrepreneurship Equity Investment Fund (limited partnership) (tentatively) ("Taihe Fund"), and the proposed capital contribution shared by the Company shall be RMB100 million.

(b) Operating leasing commitment

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

	31 December	
	2018	2017
Within one year	**1,345**	594
Between one year and five years	**1,100**	417
Total	**2,445**	1,011

(c) Legal proceedings

The Group believes the legal proceedings that remains outstanding as at 31 December 2017 and 2018 which the Group and the Company are interested party would not have a material impact on its financial position or operations.

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

40 RELATED PARTY TRANSACTIONS

The Group is controlled by Lucion Group. Together with Shandong High-Tech Venture Capital, which is also controlled by Lucion Group, it aggregately owns 51.95% of the shares of the Company at 31 December 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 31 December 2018.

The Company's directors are of the view that Lucion Group, CNPC AMC and their subsidiaries are considered as related parties of the Group. Certain trust schemes are also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 40(d) below. The Group's transaction with related parties are conducted under the ordinary course of business.

(a) Transactions with trust schemes controlled by the Group

During the the year ended 31 December 2018 and 2017, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent ("Lucion Group").

	31 December	
	2018	2017
Number of trust schemes controlled by the Group *(Note 38(b))*	**51**	45
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	**21**	26

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

	31 December	
	2018	2017
Total entrusted assets of trust schemes controlled by Lucion Group	**3,679,903**	3,866,833

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

	Year ended 31 December	
	2018	2017
Fee and commission income	**6,404**	12,820

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

40 RELATED PARTY TRANSACTIONS (CONTINUED)

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

During the year ended 31 December 2018 and 2017 Lucion Group and its subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group.

(i) Related parties as trustors of consolidated trust schemes

Related parties' interests in these consolidated trust schemes are reported as other liabilities in the Group's consolidated statements of financial position (Note 35)

	31 December	
	2018	2017
Number of trust schemes where the related parties act as trustors	**7**	10
Interests of related parties in these consolidated trust schemes	**130,530**	135,795

Investment return/(loss) have been accounted for as interest expense (Note 11) and net changes in fair value on financial assets at fair value through profit or loss in the Group's consolidated statements of comprehensive income:

	Year ended 31 December	
	2018	2017
Interest expense	**(3,411)**	(895)
Net changes in fair value on financial assets at fair value through profit or loss	**(11,073)**	(9)

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

40 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(ii) Related parties as trustors of unconsolidated trust schemes of the Group

	31 December 2018	31 December 2017
Number of unconsolidated trust schemes where related parties acts as trustors	**43**	48
Assets entrusted by related parties	**3,637,494**	4,482,205
Total entrusted assets of these unconsolidated trust schemes	**9,639,127**	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 consolidated statements of comprehensive income, and is illustrated below:

	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income	**100,654**	64,934

(c) Related parties financed by trust schemes

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

	31 December 2018	31 December 2017
Number of unconsolidated trust schemes which provide financing to related parties	**14**	26
Amount financed	**4,352,876**	13,067,794
Total entrusted assets of these unconsolidated trust schemes	**4,964,296**	13,067,794

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

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Related parties financed by trust schemes (Continued)

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

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

	Years ended 31 December	
	2018	2017
Fee and commission income	**14,154**	42,614

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

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, including directors, supervisors, and senior management personnel.

(i) Key management compensation

The compensation paid or payable to key management personnel is shown below:

	Year ended 31 December	
	2018	2017
Salaries and allowances	**5,630**	6,646
Discretionary bonuses	**12,458**	15,129
Pension	**991**	810
Other social security obligations	**532**	484
	19,611	23,069

The compensation payable to key management personnel is shown below:

	31 December	
	2018	2017
Discretionary bonuses payable	**12,458**	15,129

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

40 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

	31 December	
	2018	2017
Key management's personal investments in trust schemes	**19,698**	15,868
Total entrusted assets of these trust schemes	**7,269,831**	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 consolidated financial statements, and are illustrated below:

	Year ended 31 December	
	2018	2017
Fee and commission income	**22,584**	50,119

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

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Other related parties transactions

Significant transactions with related parties

(i) *During the the year ended 31 December 2018, the Group had the following significant transactions with related parties:*

	Year ended 31 December	
	2018	2017
Loans sold to Shandong AMC by the Group	**–**	600,000
Loans sold to Shandong AMC by the Company as the trustee of unconsolidated structured entities	**–**	568,506
Directors' and senior management emoluments paid by Lucion Group on behalf of the Group	**–**	498
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	**2,378**	1,541
Advertising costs paid to Shandong Lu Xin Film Co., Ltd.	**70**	143
Properties management expenses paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	**8,015**	8,013
System maintenance expenses paid to Luxin Technology Co., Ltd.	**5,547**	8,783
Price of equipment and software paid to Luxin Technology Co., Ltd.	**409**	1,566
Restaurant management fee paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	**256**	204
Rental costs paid to Anhui Lu Xin Investment Co., Ltd.	**65**	–
Rental income paid by Shandong Luxin Hengsheng Property Management Co., Ltd.	**139**	145
Consultant fee paid to Shandong Taishan Cultural Art Exchange Co., Ltd.	**2,124**	4,590

(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)

41 SEGMENT ANALYSIS

(a) Operating segments

	Year ended 31 December 2018			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	891,301	–	891,301
Interest income	646,777	734	–	647,511
Net changes in fair value on financial assets at fair value through profit or loss	(32,274)	–	–	(32,274)
Investment loss	(25,231)	–	–	(25,231)
Net gains on disposal of associates held by consolidated structured entities	160,851	–	–	160,851
Other operating income	732	51,616	–	52,348
Total operating income	750,855	943,651	–	1,694,506
Interest expenses	(192,801)	–	–	(192,801)
Staff costs (including directors and supervisors' emoluments)	(6,348)	(119,171)	–	(125,519)
Operating lease payments	(841)	(10,820)	–	(11,661)
Depreciation and amortisation	(585)	(7,521)	–	(8,106)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(19,754)	–	–	(19,754)
Tax and surcharges	(1,354)	(11,624)	–	(12,978)
Other operating expenses	(3,709)	(69,621)	–	(73,330)
Auditor's remuneration	(38)	(1,754)	–	(1,792)
Loan impairment charges and other credit risk provision	(220,822)	–	–	(220,822)
Impairment losses on other assets	(33,093)	–	–	(33,093)
Total operating expenses	(479,344)	(220,512)	–	(699,856)
Share of profit from investments accounted for using the equity method	132,197	–	–	132,197
Operating profit before income tax	403,708	723,139	–	1,126,847

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

41 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	31 December 2018			
	Proprietary business	Trust business	Unallocated	Total
Segment assets	12,372,327	1,213,931	25,494	13,611,752
Segment liabilities	3,989,235	66,485	15,340	4,071,060

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

41 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	Year ended 31 December 2017			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	1,129,771	–	1,129,771
Interest income	490,107	591	–	490,698
Net changes in fair value on financial assets at fair value through profit or loss	1,793	–	–	1,793
Investment income	21,148	–	–	21,148
Other operating income	702	3,785	–	4,487
Total operating income	513,750	1,134,147	–	1,647,897
Interest expenses	(167,731)	–	–	(167,731)
Staff costs (including directors and supervisors' emoluments)	(3,722)	(172,015)	–	(175,737)
Operating lease payments	(283)	(9,053)	–	(9,336)
Depreciation and amortisation	(276)	(8,839)	–	(9,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,831	–	–	1,831
Tax and surcharges	(1,301)	(13,258)	–	(14,559)
Other operating expenses	(1,921)	(88,774)	–	(90,695)
Auditor's remuneration	(50)	(2,308)	–	(2,358)
Loan impairment charges and other credit risk provision	(199,922)	–	–	(199,922)
Impairment losses on other assets	(28,536)	–	–	(28,536)
Total operating expenses	(401,911)	(294,247)	–	(696,158)
Share of profit from investments accounted for using the equity method	167,675	–	–	167,675
Operating profit before income tax	279,514	839,900	–	1,119,414

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

41 SEGMENT ANALYSIS (CONTINUED)

(a) Operating segments (Continued)

	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

42 SUBSEQUENT EVENTS

Pursuant to the resolution of 2018 Extraordinary General Meeting on 19 October 2018, the Company converted the capital surplus into ordinary shares in the proportion of 8 shares for every 10 shares held, which increased the total number of capital shares by 2,070,600,000 shares. On 7 December 2018, the Company obtained "Approval from China Banking Insurance Regulatory Commission Shandong Office on the change of the registered capital of Shandong International Trust Co., Ltd.". The Company completed the conversion on 8 January 2019. After the conversion, the amount of share capital is RMB4,658,850,000. On 17 January 2019, the Company completed the registration of registered capital change.

Except for the event described above, the Group has no material events happened after 31 December 2018.

43 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.

43.1 Credit risk

43.1.1 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 consolidated balance sheet.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.1 Credit risk measurement (Continued)

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 minimise 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"). The Group has 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 sources and considering other factors such as potential reputational damage to the Company.

The Group's proprietary business mainly includes the Group's own debt and equity investments. The management formulates its annual investment plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board of Directors. According to such plan, the Group invests in certain trust schemes established and managed by itself, listed or unlisted equity securities, mutual funds, loans and other asset management plans. For investments in its own trust schemes, the Group assesses the significance of its variable returns from its involvement in these plans and determined whether these trust schemes need to be consolidated or not. The underlying assets of consolidated trust schemes are reported in the same balance sheet line items as the Company's own assets.

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 43.1.2 for more details.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 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 43.1.2.1 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 43.1.2.2 for a description of how the Group defines credit-impaired and default.

- 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 43.1.2.3 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 43.1.2.4 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).

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

- Stage 1 (initial recgnition): 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.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

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

43.1.2.1 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:

Quantitative criteria:

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

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

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

43.1.2.2 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.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

43.1.2.2 Definition of default and credit-impaired assets (Continued)

Qualitative criteria (Continued)

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.

43.1.2.3 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).

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

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.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

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

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.

The 12-month and lifetime EADs are determined based on the expected payment profile.

The lifetime LGDs are determined based on the factors which impact the recoveries made post default and historic experiences.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. Refer to Note 43.1.2.4 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.

43.1.2.4 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) based on industry 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.

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

43.1.2.4 Forward-looking information incorporated in the ECL models (Continued)

The Group provides three possible scenarios along with scenario weightings to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, for all portfolios, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios. The weightings assigned to each economic scenario at 31 December 2018 were 50%, 20%, 30% respectively.

Item	**Range (during 2019)**
Business climate index	109.17–139.94
Real estate climate index	94.34–106.31

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.2 Expected credit loss measurement (Continued)

43.1.2.4 Forward-looking information incorporated in the ECL models (Continued)

Sensitivity analysis

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL for selected portfolios where 100% weighting is assigned to each of the three scenarios described above. The weighting is reflected in the measurement of the resulting ECL. This analysis excludes any management adjustment. Further details on management adjustment is provided below.

The three economic scenarios are generated to capture the Company's view of a range of possible forecast economic conditions that is sufficient for the calculation of unbiased and probability-weighted ECL. Therefore, the ECLs calculated for each of the scenarios represent a range of possible outcomes that is being evaluated while arriving at the ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The ECL sensitivity below represents an estimate based on the underlying point-in-time distribution of economic scenarios which have the potential to change rapidly as economic conditions evolve where we operate. The recalculated ECLs for each of the scenarios should be read in the context of the sensitivity analysis as a whole.

IFRS 9 ECL sensitivity of loans to customers to future economic conditions:

	31 December 2018
ECL weighted exposure	**617,778**
Base scenario	**571,691**
Upside scenario	**503,115**
Downside scenario	**767,074**

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.3 Credit risk exposure

43.1.3.1 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.

	31 December			
	2018			2017
	Gross carrying amount	**Loss allowance**	**Carrying amount**	
Cash and bank balance (Stage 1)	**1,081,254**	**–**	**1,081,254**	1,172,808
Financial assets purchased under resale agreements (Stage 1)	**95,100**	**–**	**95,100**	951,400
Loans to customers	**7,758,731**	**(601,978)**	**7,156,753**	6,182,432
Stage 1	**5,673,505**	**(109,835)**	**5,563,670**	N/A
Stage 2	**709,835**	**(21,824)**	**688,011**	N/A
Stage 3	**1,375,391**	**(470,319)**	**905,072**	N/A
Financial investments – amortised cost	**135,919**	**(14,443)**	**121,476**	N/A
Stage 1	**116,205**	**(1,356)**	**114,849**	N/A
Stage 2	**–**	**–**	**–**	N/A
Stage 3	**19,714**	**(13,087)**	**6,627**	N/A
Investments classified as loans and receivables	**N/A**	**N/A**	**N/A**	243,990
Other financial assets-amortised cost	**987,886**	**(73,496)**	**914,390**	1,109,527
Stage 1	**917,084**	**(5,046)**	**912,038**	N/A
Stage 2	**–**	**–**	**–**	N/A
Stage 3	**70,802**	**(68,450)**	**2,352**	N/A
Total	**10,058,890**	**(689,917)**	**9,368,973**	9,660,157

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.3 Credit risk exposure (Continued)

43.1.3.2 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):

	31 December	
	2018	2017
FVPL	**1,578,871**	485,225

43.1.3.3 Loans to customers that are impaired

The impaired loans to customers are all held by the Group's consolidated trust schemes as a result of liquidity and other supports provided by the Group according to their individual resolution plans established by the Group, or proprietary investment made by the Company in the trust scheme. The gross amount, ECL, individual impairment allowance and fair value of collateral held are as follows:

	31 December	
	2018	2017
Corporate loans to customers	**1,375,391**	844,891
Less: ECL	**(470,319)**	N/A
Individual impairment allowances	**N/A**	(284,033)
Net	**905,072**	560,858
Fair value of collateral		
Corporate loans to customers	**765,254**	1,334,427

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions.

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.1 Credit risk (Continued)

43.1.3 Credit risk exposure (Continued)

43.1.3.4 Loans to customers renegotiated

	31 December	
	2018	2017
Loans to customers renegotiated	**60,000**	240,000

43.2 Market risk

43.2.1 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.

43.2.2 Price risk

Certain financial assets such as financial assets at FVPL and available for sale financial assets are measured at fair values at the end of each reporting periods. The Group is exposed to price risks that may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may result from by the factors relating to the financial instruments itself or the issuer, and it may also result from by market factors.

The Company's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of financial assets at fair value through profit or loss and available-for-sale financial assets measured at fair value on the Group's profit before tax and equity.

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Market risk (Continued)

43.2.2 Price risk (Continued)

Profit before income tax

	Year ended 31 December	
	2018	2017
+1 percent	**15,789**	4,852
-1 percent	**(15,789)**	(4,852)

Equity impact before income tax

	31 December	
	2018	2017
+1 percent	**15,789**	11,214
-1 percent	**(15,789)**	(11,214)

43.2.3 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 31 December 2018, the main interest bearing assets held by the Company include cash and cash equivalents, loan to customers and financial assets held under reverse repurchase agreements which accounts 61.22% of total assets of the Group (31 December 2017: 64.38%). Most of the cash and cash equivalents, loan to customers and financial assets held under reverse repurchase agreements will due within one year, so the Group's cash flow interest rate risk exposures from holding these assets are not significant.

As at 31 December 2018, the Company's main interest bearing liability includes a short-term borrowing from China Trust Protection Fund Co., Ltd. of RMB450 million, which amounted to 11.05% of total liabilities of the Group (31 December 2017: RMB328 million, amounted to 8.73% of total liabilities of the Group).

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Market risk (Continued)

43.2.3 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.

43.2.4 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.

The following table illustrates the potential impact of an increase or decrease of 1 percent in HKD exchange rate on the Group's profit before tax.

Profit before income tax

	Year ended 31 December	
	2018	2017
+1 percent	**5,504**	4,852
-1 percent	**(5,504)**	(4,852)

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group forecasts its cash flows and monitors the short-term and long-term capital need to ensure it has sufficient cash reserve and securities that are readily convertible to cash. The Group holds sufficient unrestricted cash at bank and on hand to satisfy the capital need for the daily operations. As at 31 December 2018, the Group has a short-term borrowing from China Trust Protection Fund Co., Ltd. amounting to RMB450 million as disclosed in Note 36 (31 December 2017: RMB328 million).

The majority of the Group's financial liabilities on the consolidated statement of financial position are amount attributable to other beneficiaries of the trusts as a result of consolidating these trusts by the Group. The Company has no contractual obligation to provide any liquidity support to all of the trust schemes established and managed by itself. Management is of the view that the Group is not subject to significant liquidity risk given the nature of its business activities.

43.4 Capital management

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

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

The Company monitors the net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the CBIRC'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 CBIRC on a quarterly basis. Total risk-based capital is defined as the sum of (i) risk-based capital of our proprietary business; (ii) risk-based capital of our trust business, and (iii) risk-based capital of our other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for our proprietary business, and 0.1% to 9.0% for our trust business.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balance, financial assets purchased under resale agreements, loans to customers, financial investments – amortised cost, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 31 December 2018 and 31 December 2017, their fair value approximate carrying amounts.

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial assets at fair value through profit or loss				
– Listed shares	42,482	–	–	42,482
– Mutual funds	406,505	–	–	406,505
– Asset management products	–	–	133,513	133,513
– Equity investment in unlisted companies	–	–	556,314	556,314
– Investments in trust schemes	–	–	312,858	312,858
– Wealth management products	–	–	35,090	35,090
– Trust Industry Protection Fund	–	–	92,109	92,109
Investments in associates				
– Investments in associates	–	–	163,694	163,694
Total	448,987	–	1,293,578	1,742,565

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities (Continued)

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

	Level 1	Level 2	Level 3	Total
31 December 2017				
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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities (Continued)

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

During the the year ended 31 December 2017 and 2018, 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)

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 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	Investments in associates	Total
1 January 2018	543,009	–	543,009
Purchase	595,793	136,400	732,193
Sell	(32,645)	–	(32,645)
Transfer out	–	–	–
Changes in profit or loss	23,727	27,294	51,021
31 December 2018	1,129,884	163,694	1,293,578
Unrealised gains recognised in profit or loss attributable to assets held at the end of the period (included in gains/losses) disclosed above)	22,563	27,294	49,857

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities (Continued)

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

(iii) Financial instruments in Level 3 (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
1 January 2017	50,000	561,164	611,164
Purchase	112,500	142,145	254,645
Sell	(30,000)	(113,403)	(143,403)
Transfer out	–	(212,341)	(212,341)
Gains and losses recognised in the investment income of profit or loss	–	(3,516)	(3,516)
Gains and losses recognised in other reserve	–	(20,092)	(20,092)
31 December 2017	132,500	353,957	486,457
Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the period (included in gains/(losses) disclosed above)	–	–	–

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

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Fair values of financial assets and liabilities (Continued)

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

(iii) Financial instruments in Level 3 (Continued)

Description	Fair value at 31 December 2018	Valuation technique(s)	Unobservable input	Range
Financial assets at fair value through profit or loss			Discount for lack of marketability *(i)*	74%–85%
– Equity investments	**11,157**	Market comparable company model	P/E multiple *(ii)*	25.13
	106,838	Market comparable company model	P/B multiple *(ii)*	1.11
	386,285	Discounted cash flow	Discount rate	13%–14.7%
Investments in associates				
– Investments in associates	**163,694**	Discounted cash flow	Discount rate	13%–15%

Description	Fair value at 31 December 2017	Valuation technique(s)	Unobservable input	Range
Available-for-sale financial assets			Discount for lack of marketability *(i)*	45.57%–59.17%
– Equity investments	113,161	Market comparable company model	P/E multiple *(ii)*	18.48–25.75

(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 31 December 2018 the remaining investments categorised in Level 3 with fair value of RMB625,604 thousand (31 December 2017: RMB523,408 thousand) were valued based on unobservable inputs such as net assets value of portfolio investments.

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

44 FINANCIAL STATEMENT OF THE COMPANY

(a) Statement of Financial Position of the Company

	31 December	
	2018	2017
ASSETS		
Non-current assets		
Property, plant and equipment	**130,128**	120,092
Intangible assets	**5,701**	4,617
Investments accounted for using the equity method	**1,246,219**	1,125,161
Investments in consolidated structured entities	**5,508,521**	4,167,021
Available-for-sale financial assets	**N/A**	631,779
Financial assets at fair value through profit or loss	**922,247**	N/A
Loans to customers	**148,185**	372,400
Financial investments – amortised cost	**27,449**	N/A
Investments classified as loans and receivables	**N/A**	223,511
Advance payments	**8,533**	18,993
Deferred income tax assets	**125,076**	74,708
Other non-current assets	**316,639**	276,731
Total non-current assets	**8,438,698**	7,015,013
Current assets		
Cash and bank balance	**898,738**	1,063,173
Financial assets at fair value through profit or loss	**362,360**	161,945
Financial assets purchased under resale agreements	**95,100**	951,400
Loans to customers	**396,300**	147,000
Financial investments – amortised cost	**35,183**	N/A
Investments classified as loans and receivables	**N/A**	20,479
Trustee's remuneration receivable	**291,960**	359,074
Interest receivable	**N/A**	15,495
Other current assets	**457,591**	384,121
Total current assets	**2,537,232**	3,102,687
Total assets	**10,975,930**	10,117,700

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

44 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

(a) Statement of Financial Position of the Company (Continued)

	31 December	
	2018	2017
Equity and liabilities		
Share capital	**2,588,250**	2,588,250
Capital reserve	**2,223,139**	2,215,637
Statutory surplus reserve	**767,319**	688,876
Statutory general reserve	**756,073**	718,772
Other reserves	**(1,301)**	27,903
Retained earnings	**3,034,829**	2,810,753
Total equity	**9,368,309**	9,050,191
Liabilities		
Non-current liabilities		
Salary and welfare payable	**62,697**	44,974
Total non-current liabilities	**62,697**	44,974
Current liabilities		
Short-term borrowings	**450,000**	328,000
Salary and welfare payable	**18,738**	37,046
Income tax payable	**204,816**	178,863
Dividend Payable	**–**	4,048
Other current liabilities	**871,370**	474,578
Total current liabilities	**1,544,924**	1,022,535
Total liabilities	**1,607,621**	1,067,509
Total equity and liabilities	**10,975,930**	10,117,700

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 22 March 2019 and signed on its behalf by :

Chairman and Executive Director

General manager and Executive Director

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

44 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

(b) Statement of Changes in Equity of the Company

	Share capital	Capital reserve	Statutory surplus reserve	Statutory general reserve	Other reserves	Retained earnings	Total
	(Note 31)	*(Note 31)*	*(Note 32)*	*(Note 32)*	*(Note 32)*		
Balance at 1 January 2018	**2,588,250**	**2,215,637**	**688,876**	**718,772**	**27,903**	**2,810,753**	**9,050,191**
Changes on initial application of IFRS 9 *(note 2.1.1)*	**–**	**–**	**–**	**–**	**(35,254)**	**3,162**	**(32,092)**
Restated balance at 1 January 2018	**2,588,250**	**2,215,637**	**688,876**	**718,772**	**(7,351)**	**2,813,915**	**9,018,099**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**784,424**	**784,424**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**6,050**	**–**	**6,050**
Total comprehensive income	**–**	**–**	**–**	**–**	**6,050**	**784,424**	**790,474**
Appropriation to statutory surplus reserve	**–**	**–**	**78,443**	**–**	**–**	**(78,443)**	**–**
Appropriation to statutory general reserve		**–**	**–**	**37,301**	**–**	**(37,301)**	**–**
Dividends paid *(Note 34)*	**–**	**–**	**–**	**–**	**–**	**(447,766)**	**(447,766)**
Others		**7,502**				**–**	**7,502**
Balance at 31 December 2018	**2,588,250**	**2,223,139**	**767,319**	**756,073**	**(1,301)**	**3,034,829**	**9,368,309**
Balance at 1 January 2017	2,000,000	616,289	608,527	638,423	51,223	2,422,169	6,336,631
Net profit for the year	–	–	–	–	–	803,495	803,495
Other comprehensive income for the year	–	–	–	–	(23,320)	–	(23,320)
Total comprehensive income	–	–	–	–	(23,320)	803,495	780,175
Appropriation to statutory surplus reserve	–	–	80,349	–	–	(80,349)	–
Appropriation to statutory general reserve	–	–	–	80,349	–	(80,349)	–
Dividends paid *(Note 34)*	–	–	–	–	–	(254,213)	(254,213)
Proceeds from issuance of H shares	588,250	1,599,348	–	–	–	–	2,187,598
Balance at 31 December 2017	2,588,250	2,215,637	688,876	718,772	27,903	2,810,753	9,050,191

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"Articles of Association"	Articles of Association of the Company (as amended from time to time)
"Audit Committee"	the audit committee under the Board
"Board" or "Board of Directors"	the board of Directors
"Board of Supervisors"	the board of Supervisors of the Company
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"Business Decision Committee"	the business decision committee under the Board
"CBRC" or "CBIRC"	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which was formed by CBIRC through the banking and insurance regulators in the PRC (i.e. the China Banking Regulatory Commission ("**CBRC**") and the China Insurance Regulatory Commission) in April 2018 upon merger. Except where the context otherwise requires, it may refer to its predecessors, namely, the CBRC and/or the CIRC
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not include, Hong Kong, Macau and Taiwan
"CNPC Assets Management"	CNPC Assets Management Co., Ltd.* (中油資產管理有限公司)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"CSRC"	China Securities Regulatory Commission
"Director(s)"	director(s) of the Company
"Domestic Share(s)"	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
"GDP"	gross domestic product
"Group"	the Company and the trust schemes over which it has control

"H Share(s)"	overseas listed foreign share(s) in our ordinary share capital with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"HK$" or "Hong Kong dollars"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Human Resources and Nomination Committee"	the human resources and nomination committee under the Board
"IFRS"	International Financial Reporting Standards
"Kunlun Trust"	Kunlun Trust Co., Ltd.
"Listing Date"	the date when the Company's H Shares are listed on the main board of the Hong Kong Stock Exchange (i.e. 8 December 2017)
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lucion Group"	Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司)
"Macau"	the Macau Special Administrative Region of the PRC
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"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

"Prospectus"	the prospectus of the Company published on 28 November 2017
"Remuneration Committee"	the remuneration committee under the Board
"Reporting Period"	the period from 1 January 2018 to 31 December 2018
"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, supplemented from time to time or otherwise revised
"Shandong Office of CBRC" or "Shandong Office of CBIRC"	the Shandong Office of CBRC (中國銀監會山東監管局) (currently known as Shandong Office of CBIRC)
"Shandong Trust", "SITC", "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, except where the context otherwise requires, the trust schemes over which it has control
"Shareholder(s)"	holder(s) of our shares
"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
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategies and Risk Management Committee"	the strategies and risk management committee under the Board
"Supervisor(s)"	supervisor(s) of the Company
"Trust Committee"	the trust committee under the Board
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "USD"	United States dollars, the lawful currency for the time being of the United States

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this annual report in connection with our Company and our business. Some of these may not correspond to standard industry definitions or usage of these terms.

"asset management scheme"	an asset management contract entered into with its client(s) by a securities firm or subsidiary of securities investment fund management company in China, pursuant to which the client(s)' assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC and the securities firm provides asset management services to the client(s) through designated accounts
"AUM"	assets under management, which refers to the amount of the entrusted assets of our trust schemes
"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
"Net Asset Value"	net assets value, which means the value of an entity or trust scheme's assets minus the value of its liabilities
"Net Capital"	a measure provided by the Net Capital Measures, being our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by the CBRC while the risk deductions are determined by the CBRC
"Net Capital Measures"	the Administrative Measures on Net Capital of Trust Companies (信託公司淨資本管理辦法) promulgated by the CBRC in August 2010
"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.