

**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

信託



**2019**

INTERIM REPORT

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# COMPANY PROFILE

Shandong International Trust Co., Ltd., currently a director member of the China Trustee Association, was established as a non-banking financial institution in March 1987, with the approval of PBOC and the People's Government of Shandong Province. In December 2017, the Company was listed on Hong Kong Stock Exchange (stock code: 1697.HK), being the first domestic trust company listed on international capital market. In January 2019, the Company's registered capital increased to RMB4.659 billion, with a constantly increasing capital strength.

The Company has always achieved progress and quality improvement while maintaining stability, served economic and social development by utilizing various financial instruments, promote effective interconnection between monetary market, capital market with industry market, and established the development pattern of "taking root in Shandong, spreading to the whole country and establishing presence across the globe". Being rated as "Class A" (the highest rating attainable) in the national industry-wide rating and the highest AAA rating in the comprehensive assessment of local financial institutions in Shandong for many times, the Company has been developed into an integrated financial and wealth management service provider with a leading comprehensive strength and sound brand reputation.

In the field of trust business, to facilitate the set-up of investment and financing service platform and wealth management platform, the Company formed an all-around and multi-level trust product line covering trust of industrial and commercial enterprises, infrastructure trust, real estate trust, securities investment trust, integrated financial service trust of listed company, family trust and charitable trust. It has built a series of trust brands including "Xinyuan Minsheng" (信元民生), "Xiongxin Anxin" (雄心安心), "De Shan Qi Jia" (德善齊家), "Guozi Huinong" (國資惠農), "Zilan Culture" (茲蘭文化) and "Urban Development" (城市發展), leading to increasingly higher popularity and reputation.

In respect of long-term equity investment, the Company paid close attention to financial industry policies, and devoted to building an integrated financial service platform. It mainly held shares of First-Trust Fund Management Co., Ltd.\* (泰信基金管理有限公司) and invested in financial institutions such as Fullgoal Fund Management Co., Ltd.\* (富國基金管理有限公司), Minsheng Securities Co., Ltd.\* (民生證券股份有限公司), Taishan Property & Casualty Insurance Co., Ltd.\* (泰山財產保險股份有限公司) and Shandong HOWO Auto Finance Co., Ltd.\* (山東豪沃汽車金融有限公司). Meanwhile, the Company is actively researching and seeking strategic opportunities for overseas financial equity investment by utilizing its advantage as a Hong Kong listed company.

The results from the Company's years of development have been recognized and appraised by all walks of life, as evidenced by more than 30 major awards, such as "Most Valuable Financial Stock in the 2018 Golden Hong Kong Stocks Awards", "Best IPO Award of the Year of 2017", "Shandong Charitable Award – the Most Influential Charity", "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", and "Excellent Risk Control Award". As a state-owned enterprise based in Shandong, the Company is also highly appraised for its development in the province. It was awarded with the honorary title of "Advanced Company Contributing to Financial Development of Shandong Province" by the Government of Shandong Province and has won the "Financial Innovation Award of Shandong Province" for three consecutive years.

The Company seized opportunities and audaciously met the challenges. The Company provided multi-type, all-around quality investment and financing services that cover the whole industry chain for the development of national and local economy and provided institutional investors and individual investors with professional, differentiated, personalised and integrated financial services. By holding firmly to the guideline "product specialisation, service integration, and business standardisation", the Company will adopt innovative industrial and financial integration, access to global resources, facilitate the building of better life, and create greater values for domestic and international investors.

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

# BASIC CORPORATE INFORMATION

<b>Legal name (in Chinese)</b>	山東省國際信託股份有限公司
<b>Abbreviation in Chinese</b>	山東國信
<b>Legal name (in English)</b>	Shandong International Trust Co., Ltd.
<b>Abbreviation in English</b>	SITC
<b>Legal representative</b>	Wan Zhong (萬眾)
<b>Authorised representatives</b>	Wan Zhong (萬眾) Lee Kwok Fai, Kenneth (李國輝)
<b>Secretary to the Board</b>	He Chuangye (賀創業)
<b>Joint company secretaries</b>	He Chuangye (賀創業) Lee Kwok Fai, Kenneth (李國輝)
<b>Registered office</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
<b>Postal code</b>	250013
<b>Head office in the PRC</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
<b>Postal code</b>	250013
<b>E-mail address</b>	ir1697@luxin.cn
<b>Internet website</b>	<a href="http://www.sitic.com.cn">http://www.sitic.com.cn</a>
<b>Principal place of business in Hong Kong</b>	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
<b>Website of Hong Kong Stock Exchange for publishing the interim report for H Shares</b>	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
<b>Place for maintaining interim report</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC



# BASIC CORPORATE INFORMATION

<b>Place of listing of H Shares</b>	The Stock Exchange of Hong Kong Limited
<b>Stock name</b>	SDITC
<b>Stock code</b>	1697
<b>H Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
<b>Legal Advisor (as to PRC laws)</b>	Fangda Partners
<b>Place of business</b>	24/F, HKRI Centre Two, HKRI Taikoo Hui 288 Shi Men Yi Road Shanghai, PRC
<b>Legal Advisor (as to Hong Kong laws)</b>	Fangda Partners
<b>Place of business</b>	26th Floor, One Exchange Square 8 Connaught Place Central, Hong Kong
<b>International Auditor</b>	PricewaterhouseCoopers
<b>Place of business</b>	Certified Public Accountants 22/F, Prince's Building Central, Hong Kong
<b>PRC Auditor</b>	PricewaterhouseCoopers Zhong Tian LLP
<b>Place of business</b>	PricewaterhouseCoopers Center, 2 Corporate Avenue 202 Hu Bin Road, Huangpu District Shanghai, PRC
<b>Name of the undersigned accountant</b>	Hu Liang (胡亮), Zhu Huirong (朱慧蓉)
<b>Principal Bank</b>	China Citic Bank Quancheng Road Sub-branch No.166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

# MAJOR FINANCIAL DATA

	As at and for six months ended 30 June		As at and for the year ended 31 December (Audited)			
	2019	2018	2018	2017	2016	2015
Data at the end of the Reporting Period (RMB in millions)						
Total assets	<b>13,659</b>	13,611	13,612	12,902	8,648	8,171
Fee and commission income	<b>477</b>	442	891	1,130	828	1,052
Interest income	<b>244</b>	352	648	491	455	461
Total operating income	<b>858</b>	951	1,695	1,648	1,327	1,786
Change in net asset attributable to other holders of consolidated structured entities	<b>(11)</b>	(27)	(20)	2	1	–
Total operating expenses	<b>489</b>	489	700	696	389	615
Operating profit before income tax	<b>431</b>	546	1,127	1,119	1,077	1,346
Segment assets						
Proprietary business	<b>12,157</b>	12,289	12,372	11,655	7,557	6,711
Trust business	<b>1,467</b>	1,228	1,214	1,202	912	1,206
Unallocated assets <sup>(1)</sup>	<b>35</b>	94	26	45	179	254
Segment liabilities						
Proprietary business	<b>4,136</b>	4,496	3,989	3,715	2,220	1,529
Trust business	<b>72</b>	39	67	38	85	21
Unallocated liabilities <sup>(1)</sup>	<b>13</b>	32	15	2	2	623

Note:

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## ENVIRONMENT REVIEW

Since 2019, the growth drivers of the global economy will weaken with declining growth trend in the major economy. Subject to global trade friction and changes in financial environment, the financial market saw more fluctuations with increasing economic downturn risks. The economic growth of the PRC remained resilient, and extended the development trend of overall stable with progress and improvement by continuously operating within the reasonable intervals. Structural adjustment continued to be promoted, and the overall supply and demand basically remained balanced. The growth of consumption and investment was stable, while the trade surplus represented year-on-year enlargement. The price level and employment remained stable, but economic downturn pressure still arose from the increase in internal and external uncertainties and unstable factors.

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 achieve rewarding results from structural deleveraging and financial risk prevention and control. The quality and efficiency of serving the real economy with finance were gradually enhanced as the economic structure continued to improve. 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 first quarter of 2019, balance of trust assets managed by the PRC trust industry amounted to RMB22.54 trillion, representing a decrease of 0.7% as compared with that at the end of 2018, and thus the decline was narrowed down further.

## 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 of 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, the Company continued to improve its active management capability, stepped up efforts to revisit the fundamentals and vigorously served the real economy, making substantial progress on each work. Firstly, the Company developed new mode for finance and industry integration, upgrading active management to 2.0 version. The Company continued to optimise business model and gradually fostered core competitiveness of active management. The Company continued to enhance its capabilities of asset acquisition and value-added service of asset operation management. To improve quality and efficiency of serving the real economy, the Company focused on serving the real economy, major project construction of new and old kinetic energy conversion, and improving new and old kinetic energy conversion by providing greater financial support to “Ten Major” industries, switching from concentrating resources on venture capital fund to strategic emerging industries and other industries that encourage investment. Secondly, the Company are strongly committed to driving development through innovation by seizing the opportunity to accelerate the pace of development of smart trust. Smart trust is chosen to be the first batch of “Modern quality industrial clusters+ artificial intelligence” pilot demonstration program in Shandong Province. The phase one of the construction of smart trust system has been successfully implemented, and the data centre with solid foundation has been established to strengthen the data operation management capability and efficiency significantly. Thirdly, the Company improved both business, and research and development to implement innovative business. The Company established the team of innovative business to set up the first active management bond trust of the Company and “Tian Xi Ying” cash management trust products. The Company strived to promote inclusive financial services and sped up the implementation of consumption trust. Fourthly, the Company strengthened its customer-oriented approach by creating value and improving wealth management. The Company has improved its independent marketing capability and has newly established Jinan Long’ao network, which effectively supplement the wealth management service of the eastern region of Jinan. The Company deepened the cooperation between distribution channel and institutions, and commenced several cooperations in relation to the launch of trust products from various financial institutions. Fifthly, the Company strengthened the internal control and enhanced management efficiency to further improve the compliance awareness and pressure resistance ability for risk. The Company vigorously promoted compliance culture, laid a solid compliance foundation, and improved risk control system to control risk.

In the first half of 2019, the Company achieved operating income with an amount of RMB858.0 million, representing a year-on-year decrease of 9.8%. Meanwhile, the net profit attributable to shareholders of the Company was RMB328.3 million, representing a year-on-year decrease of 23.0%, mainly due to the combined influence of a year-on-year decrease in the net gains on disposal of associates held by consolidated structural entities, a year-on-year decrease in interest income and a year-on-year increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value for the first half of 2019.

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





# MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>Six months ended 30 June</b>			
	<b>2019</b>		<b>2018</b>	
	Amount	%	Amount	%
<i>(RMB in thousands, apart from %)</i>				
<b>Trust business</b>				
Operating income	<b>477,558</b>	<b>51.92%</b>	447,390	43.23%
Segment income	<b>477,558</b>	<b>51.92%</b>	447,390	43.23%
<b>Proprietary business</b>				
Operating income	<b>380,457</b>	<b>41.36%</b>	503,639	48.67%
Share of profit of investments accounted for using the equity method	<b>61,833</b>	<b>6.72%</b>	83,814	8.10%
Segment income	<b>442,290</b>	<b>48.08%</b>	587,453	56.77%
<b>Total</b>	<b>919,848</b>	<b>100.00%</b>	1,034,843	100.00%

In the first half of 2019, the income from the trust business and proprietary business of the Company accounted for 51.9% and 48.1% of the total revenue of the Company, respectively.

## Trust Business

In the first half of 2019, 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 method. Firstly, the Company continued to improve the active management capability and optimise business model. The Company enhanced the acquisition capability and operation management capability of quality asset by employing equity investment, "equity + debts", mergers and acquisitions funds and other means. Secondly, the Company stepped up its effort to expand the business by revisiting the fundamentals of trust industry and by actively researching and developing standard family trust products. The family trust business continued to maintain the leading position with the improvement of the customized and professional service. The Company researched, developed and designed standard products structure such as fund for wedding and education to be the first to enter into the times of total asset management. The charitable trust business was on track to better development and nurtured sound results from a business mode that coordinated with family trust. Thirdly, the innovative businesses have been carried out in succession as the Company sped up the transformation and innovation. The Company deepened the coordination between business and research and development. The Company established the team of innovative business to set up the first active management bond trust of the Company and "Tian Xi Ying" cash management trust products. The Company further cultivated product lines of the Company and promoted inclusive financial services with the continuous growth in consumption trust scale. Fourthly, the Company strengthened its customer-oriented approach by creating value and improving wealth management. The Company recorded a significant year-on-year increase in the independent marketing scale and newly established Jinan Long'ao network, which effectively supplement the service of the eastern region of Jinan. The Company deepened the cooperation between distribution channel and institutions. We improved the capability of capital end to acquire customers and enhance customer cohesiveness.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, the Company constantly improved its active management capability, and accelerated the pace of the trust industry to revisit the fundamentals. In the first half of 2019, both the trust assets under management (“AUM”) and income from trust business of the Company recorded a year-on-year increase, while the proportions of the scale of AUM and the income from actively managed trust maintained a steady growth compared to the total trust business. The trust AUM of all the Company’s trusts increased from RMB225,037 million as at 30 June 2018 to RMB247,290 million as at 30 June 2019, and the total number of trusts were 977 and 1,203, respectively, as at the respective dates. As at 30 June 2019, the AUM of actively managed trust was RMB109,159 million, accounting for 44.1% of the total trust AUM (indicating a year-on-year growth of 11.3 percentage points). During the Reporting Period, revenue from the actively managed trust amounted to RMB368 million, accounting for 77.1% of the fee and commission income of the total income from trust business (indicating a year-on-year growth of 7.0 percentage points).

## *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 capability, the Company has been continuously developing trust products with new and different structures and new investment channels, in order to capture market opportunities emerging at different times and satisfy the changing needs of its clients. The Company offers and manages a range of trusts to satisfy the financing, investment and wealth management needs of its various types of clients.

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

- (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:

	Six months ended 30 June			
	2019		2018	
	Number	AUM	Number	AUM
	<i>(AUM: RMB in millions)</i>			
Financing trusts	143	40,889	125	41,092
Investment trusts	647	68,270	406	32,680
Administrative management trusts	413	138,131	446	151,265
<b>Total</b>	<b>1,203</b>	<b>247,290</b>	<b>977</b>	<b>225,037</b>

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

	Six months ended 30 June			
	2019		2018	
	Revenue	%	Revenue	%
	<i>(Revenue: RMB in millions)</i>			
Financing trusts	220	46.12	256	57.92
Investment trusts	148	31.03	54	12.22
Administrative management trusts	109	22.85	132	29.86
<b>Total</b>	<b>477</b>	<b>100.00</b>	<b>442</b>	<b>100.00</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Financing Trusts*

Through financing trusts, the Company mainly provides private equity investment banking services to various types of enterprises and institutions in China, and offers flexible and diversified financing plans. Based on the industry segments, the financing trusts of the Company during the Reporting Period can be categorised as real estate trusts, 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 financing. By sending onsite managers and engaging third-party professional institutions to be in charge of management, the Company continued to enhance its active management capability and risk control for real estate projects and enhanced cooperation with counterparties.
- (2) **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 the first half of 2019, the Company offered support to industrial and commercial sectors via industry investment funds and equity investments, which diversified the instruments available for the industrial and commercial sectors.

As at 30 June 2018 and 30 June 2019, the Company had managed 125 and 143 financing trusts, respectively, and the AUM decreased by 0.5% from RMB41,092 million as at 30 June 2018 to RMB40,889 million as at 30 June 2019. The revenue from financing trusts for the first half of 2019 decreased by 14.1% to RMB220 million as compared to the first half of 2018.

## *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 the trusts and the business scope of the trust license enable the Company to offer financial products with unique value to institutional investors and HNWI.



# MANAGEMENT DISCUSSION AND ANALYSIS

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, equity interests, right to claim insurance benefits 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 30 June 2019, the Company's family trust business has signed in aggregate a contract amount of RMB9.379 billion, of which the trust assets that have actually been delivered amounted to RMB8.176 billion, representing a year-on-year increase of 74.2%, thus continuing to secure a leading position in the industry. Since 2019, the Company actively researched and developed standard family trust products, so that we will become the first mover in developing standard family trust. The Company identified target customers and enhanced customer cohesiveness to expand its customer base and cultivate new profit growth engines for long-term stability of the Company. The Company's "Wealth Succession Family Trust" (財富傳承系列家族信託) was awarded "Top 10 Family Trust Management Innovation Award by Securities" (十佳家族信託管理創新獎) by The Banker (《銀行家》), 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing private wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen for them by the Company based on their respective investment needs. The trust agreements normally set forth the general scope of investment as set by the trustors, and the Company is granted with full discretion on allocation of the trust assets. During the Reporting Period, the Company continued to exert effort on developing customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 30 June 2019, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB1.753 billion.
- (6) **Other Trusts:** In addition to the above investment trusts, the Company also established other types of investment trusts, such as charitable trusts, which are manifestations of the Company's active performance for its corporate social responsibility. The Company's charitable trusts enhanced the branding of the Company as its business development model and to integrate the business development model with the Company's family trust business. As at 30 June 2019, the Company managed 6 charitable trusts, with the AUM reaching approximately RMB45.3 million.

As at 30 June 2018 and 30 June 2019, the Company had 406 and 647 investment trusts, respectively, with AUM increasing by 108.9% from RMB32,680 million as at 30 June 2018 to RMB68,270 million as at 30 June 2019. Revenue from investment trusts for the first half of 2019 amounted to RMB148 million, representing an increase of 174.1% as compared to the first half of 2018.

## *Administrative Management Trusts*

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

As at 30 June 2018 and 30 June 2019, the Company had 446 and 413 administrative management trusts, respectively, with the AUM decreasing by 8.7% from RMB151,265 million as at 30 June 2018 to RMB138,131 million as at 30 June 2019. In the first half of 2019, the income of the Company from administrative management trusts was RMB109 million, representing a decrease of 17.4% as compared to the first half of 2018.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Proprietary Business

In the first half of 2019, 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 “equity + debts” trust business. Secondly, the Company fully utilised 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 development, and foster new growth engines. Thirdly, with a full awareness of the situation, the Company actively pushed forward the transformation 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 diversified investment, government bonds purchased under agreements to resell with liquidity, purchase of monetary fund and dedicated account management for overseas assets were actively carried out to improve utilisation efficiency of domestic and overseas capitals. The Company recorded the segment income of RMB442.3 million from its proprietary business in the first half of 2019, representing a year-on-year decrease of 24.7%, mainly due to the decrease in interest income realised from the segment of proprietary business of the Company from RMB351.4 million in the first half of 2018 to RMB243.2 million in the first half of 2019 and the net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in the first half of 2018, but no such gain was recorded in the first half of 2019, partially offset by increases in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, from RMB9.1 million in the first half of 2018 to RMB133.9 million in the first half of 2019 and investment income from the loss of RMB18.0 million in the first half of 2018 to the income of RMB3.1 million in the first half of 2019.

### *Allocation of Proprietary Assets*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in thousands)</i>	
<b>Investments in monetary assets</b>	<b>911,767</b>	993,793
Deposits at banks	<b>197,967</b>	898,693
Government bonds purchased under agreements to resell	<b>713,800</b>	95,100
<b>Securities Investments</b>	<b>6,745,908</b>	6,643,234
<i>Investment in equity products</i>	<b>883,425</b>	406,645
Listed shares classified as:		
– financial assets at FVPL	<b>74,666</b>	1,601
Subtotal	<b>74,666</b>	1,601
Mutual funds classified as:		
– financial assets at FVPL	<b>770,847</b>	360,759
Subtotal	<b>770,847</b>	360,759
Equity investment in unlisted entities classified as financial assets at FVPL	<b>37,912</b>	44,285
<i>Investment in wealth management products</i>		
Investments in consolidated trust schemes	<b>5,162,468</b>	5,508,521
Investments in unconsolidated trust schemes and classified as financial investments measured at amortized cost	<b>1,009</b>	60,210
Investment in unconsolidated trust schemes classified as financial assets at FVPL	<b>313,035</b>	534,345
Asset management products	<b>385,971</b>	133,513
<b>Long-Term Equity Investments</b>	<b>1,333,302</b>	1,364,214
Investment accounted for using the equity method	<b>1,198,363</b>	1,246,219
Investment in financial assets classified as financial assets at FVPL	<b>134,939</b>	117,995
<b>Proprietary Loans</b>	<b>659,589</b>	516,573
<b>Trust Industry Protection Fund</b>	<b>95,701</b>	92,109
<b>Total</b>	<b>9,746,267</b>	9,609,923





# MANAGEMENT DISCUSSION AND ANALYSIS

## Monetary Assets

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

	As at 30 June 2019	As at 31 December 2018 (Audited)
<i>(RMB in thousands)</i>		
<b>Investment in monetary assets</b>		
– Deposit at banks	<b>197,967</b>	898,693
– Government bonds purchased under agreements to resell	<b>713,800</b>	95,100
<b>Total</b>	<b>911,767</b>	993,793

	Six months ended 30 June 2019	2018
<i>(RMB in thousands)</i>		
<b>Interest income generated from:</b>		
– Deposit at banks	<b>2,719</b>	3,612
– Government bonds purchased under agreements to resell	<b>3,941</b>	10,281
<b>Total</b>	<b>6,660</b>	13,893

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 1.7% and 1.4% for the six months ended 30 June 2018 and 30 June 2019, respectively. The decrease in average investment return was attributable to the decrease in average investment amount and average yield of government bond purchased under agreements of the Company in the first half of 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Securities Investments

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

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

	Six months ended 30 June 2019	Year ended 31 December 2018 (Audited)
<i>(RMB in millions, except risk category)</i>		
<b>Risk category of underlying investments</b>		
– Equity products	<b>High</b>	High
– Trust schemes	<b>Medium</b>	Medium
– Asset management products	<b>Medium</b>	Medium
<b>Average investment balance<sup>(1)</sup></b>		
– Equity products	<b>645.0</b>	410.4
– Trust schemes	<b>5,789.8</b>	5,272.0
– Asset management products	<b>259.7</b>	150.6

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 57.2% from RMB410.4 million in 2018 to RMB645.0 million in the first half of 2019; the average balance of investments in trust schemes increased by 9.8% from RMB5,272.0 million in 2018 to RMB5,789.8 million in the first half of 2019; and the average balance of the Company's investments in asset management products increased by 72.4% from RMB150.6 million in 2018 to RMB259.7 million in the first half of 2019.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Long-Term Equity Investments

The Company has made strategic long-term investments in a number of financial institutions, which helped the Company to establish stronger business relationships with these financial institutions and created synergies for its business operations. The following table sets forth the major equity investments of the Company in financial institutions as at 30 June 2019, 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 investment.

Name	Main business	Equity interest		First investment date	Accounting treatment
		as at 30 June 2019	Board seat		
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method
Shandong HOWO Automotive Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	Automobile financing	10.00%	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 FVPL

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company uses the equity method to account for its long-term equity interests in companies that constituted associates of the Company under IFRSs, and account for the Company's long-term equity investments in other companies as financial assets at FVPL under the requirements of IFRS 9 "Financial Instruments" since 1 January 2018. The balance of the Company's long-term equity investments (including those accounted for as associates using the equity method, financial assets at FVPL) together with their investment return (in terms of dividend income generated) for the periods indicated below are summarised as follows:

	As at 30 June 2019	As at 31 December 2018 (Audited)
<i>(RMB in thousands)</i>		
Long-term equity investments, accounted for:		
– As associate using the equity method	<b>1,198,363</b>	1,246,219
– Investment categorized as financial assets at FVPL	<b>134,939</b>	117,995
<b>Total</b>	<b>1,333,302</b>	1,364,214

	Six months ended 30 June 2019	2018
<i>(RMB in thousands)</i>		
Long-term equity investments, accounted for:		
– Associates using the equity method	<b>43,355</b>	29,372
– Investment categorized as financial assets at FVPL	–	5,688
<b>Total</b>	<b>43,355</b>	35,060

The average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 5.7% and 6.4% for six months ended 30 June 2018 and 30 June 2019, respectively. The increase in average return on long-term equity investments in the first half of 2019 as compared to that of the first half of 2018 was primarily due to the increase in dividend income from the associates of the Company in the first half of 2019.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Proprietary Loans*

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. As at 31 December 2018 and 30 June 2019, the outstanding balance of the Company's proprietary loans were RMB516.6 million and RMB659.6 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 3.9% from RMB92.1 million as at 31 December 2018 to RMB95.7 million as at 30 June 2019.

## FINANCIAL OVERVIEW

### Unaudited Interim Condensed Consolidated Comprehensive Income Statements Analysis

In the first half of 2019, the net profit attributable to shareholders of the Company amounted to RMB328.3 million, which decreased by RMB98.1 million as compared to the corresponding period of last year, representing a decrease of 23.0%.

## *Results of Operations*

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

	Six months ended 30 June	
	2019	2018
	<i>(RMB in thousands)</i>	
Fee and commission income	477,066	442,050
Interest income	243,701	351,740
Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value	133,862	9,051
Investment income/(loss)	3,072	(18,024)
Net gains on disposal of associates held by consolidated structured entities	–	160,851
Other operating income	314	5,361
<b>Total operating income</b>	<b>858,015</b>	951,029

# MANAGEMENT DISCUSSION AND ANALYSIS

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Interest expenses	<b>(85,581)</b>	(43,778)
Staff costs (including directors and supervisors' emoluments)	<b>(64,657)</b>	(77,602)
Operating lease payments	<b>(3,916)</b>	(4,964)
Depreciation and amortisation	<b>(5,004)</b>	(4,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities	<b>(11,321)</b>	(26,751)
Tax and surcharges	<b>(5,100)</b>	(5,117)
Auditor's remuneration	<b>(896)</b>	(896)
Other operating expenses	<b>(30,953)</b>	(33,209)
Loan impairment charges and other credit risk provision	<b>(276,232)</b>	(277,272)
Impairment losses on other assets	<b>(5,045)</b>	(15,439)
<b>Total operating expenses</b>	<b>(488,705)</b>	(489,143)
Share of profit of investments accounted for using the equity method	<b>61,833</b>	83,814
<b>Operating profit before income tax</b>	<b>431,143</b>	545,700
Income tax expense	<b>(102,861)</b>	(119,309)
<b>Net profit attributable to shareholders of the Company</b>	<b>328,282</b>	426,391

## *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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
<b>Fee and commission income:</b>		
Trustee's remuneration	<b>476,889</b>	439,350
Others	<b>177</b>	2,700
<b>Total</b>	<b>477,066</b>	442,050



# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's fee and commission income in the first half of 2019 was RMB477.1 million, representing an increase of 7.9% as compared to RMB442.1 million in the first half of 2018. Such increase was primarily due to an increase in the Group's trustee's remuneration, which was caused by an increase in the AUM of actively managed trust in the first half of 2019.

## *Interest Income*

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
<b>Interest income from:</b>		
Cash and bank deposits balance	<b>2,719</b>	3,612
Loans to customers	<b>230,920</b>	326,248
Investments classified as financial investment measured at amortised cost	<b>2,171</b>	7,992
Financial assets purchased under agreements to resell	<b>3,941</b>	10,281
Contribution to Trust Industry Protection Fund on behalf of trust schemes	<b>3,950</b>	3,607
<b>Total</b>	<b>243,701</b>	351,740

The Group's interest income in the first half of 2019 was RMB243.7 million, representing a decrease of 30.7% as compared to the RMB351.7 million in the first half of 2018. Such decrease was primarily due to the following factors:

- (1) The Group's interest income from loans to customers decreased by 29.2% from RMB326.2 million in the first half of 2018 to RMB230.9 million in the first half of 2019, primarily due to a decrease in the size of loans in the consolidated trust scheme of interest income recorded by the Group in the first half of 2019.
- (2) The Group's interest income from financial assets purchased under agreements to resell decreased by 61.7% from RMB10.3 million in the first half of 2018 to RMB3.9 million in the first half of 2019, primarily due to the decrease in the average investment amount and the average yield of government bonds purchased under agreements to resell of the Company in the first half of 2019 as compared with the same period last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (3) The Group's interest income from investments classified as financial investments measured at amortised cost decreased by 72.8% from RMB8.0 million in the first half of 2018 to RMB2.2 million in the first half of 2019, primarily due to the decrease in the average amount of the financial investments measured at amortised cost of the Company in the first half of 2019 as compared with the same period last year.

## ***Net Changes in Fair Value on Financial Assets at FVPL and Investment in Associates Measured at Fair Value***

Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value increased from a gain of RMB9.1 million in the first half of 2018 to a gain of RMB133.9 million in the first half of 2019, primarily due to (i) the increase in the value of financial assets at FVPL held by the Company affected by the capital market; and (ii) the increase in valuation of associates indirectly held by the Company through trust schemes measured at fair value.

## ***Investment Income/(Loss)***

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
<b>Dividends income from:</b>		
Financial assets at FVPL	–	5,688
<b>Net realised gains/(losses) from:</b>		
Financial assets at FVPL	<b>3,072</b>	(23,712)
<b>Total</b>	<b>3,072</b>	(18,024)

The Group's investment gains in the first half of 2019 were a gain of RMB3.1 million, increased by RMB21.1 million as compared to the losses of RMB18.0 million in the first half of 2018, due to the losses arising from disposals of shares and funds in the first half of 2018.





# MANAGEMENT DISCUSSION AND ANALYSIS

## *Net gains on disposal of associates held by consolidated structured entities*

Consolidated structured entities of the Group include the trust schemes developed and managed by the Group. In the first half of 2018, the equity interests held by the specific consolidated structured entities which were accounted for by the Group using equity method were disposed of, and the Group realised a net gain of RMB160.9 million, while no gains were recorded in the first half of 2019.

## Total Operating Expenses

### *Interest Expenses*

The Group's interest expenses represented (i) interest paid to China Trust Industry Protection Fund Co., Ltd.\* (中國信託業保障基金有限責任公司); (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 the first half of 2019 were RMB85.6 million, increased by 95.5% as compared to RMB43.8 million in the first half of 2018, primarily due to the increase in expected returns attributable to third-party beneficiaries of the Group consolidated financing trust schemes (after offsetting the impairment losses attributable to third-party beneficiaries). The increase in expected returns attributable to third-party beneficiaries of the Group consolidated financing trust schemes (after offsetting the impairment losses attributable to third-party beneficiaries) was primarily due to the substantial decrease in the impairment attributable to other beneficiaries of the Group's consolidated financing trust schemes from the first half of 2018 to the first half of 2019.

### *Staff Costs (including directors and supervisors' emoluments)*

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

	Six months ended 30 June	
	2019	2018
	<i>(RMB in thousands)</i>	
Salaries and bonuses	47,733	62,301
Pension costs (defined contribution plans)	3,349	2,847
Housing funds	3,165	1,961
Labour union fee and staff education expenses	3,488	180
Other social security and benefit costs	6,922	10,313
<b>Total</b>	<b>64,657</b>	<b>77,602</b>

The Company's staff costs in the first half of 2019 were RMB64.7 million, decreased by 16.7% as compared to RMB77.6 million in the first half of 2018, primarily due to the decreases in salaries and bonuses.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Operating Expenses

The Group's other operating expenses decreased by 6.8% from RMB33.2 million in the first half of 2018 to RMB31.0 million in the first half of 2019, primarily due to the decrease in the advertising expense in the first half of 2019.

## Impairment Losses on Assets

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Loan impairment charges and other credit risk provision		
– Loans to customers	<b>246,026</b>	255,385
– Financial investments measured at amortised cost	<b>146</b>	4,924
– Trustee's remuneration receivable	<b>3,902</b>	11,624
– Others	<b>26,158</b>	5,339
<b>Sub-total</b>	<b>276,232</b>	277,272
<b>Impairment loss on other assets</b>		
– Investment in art work	<b>2,712</b>	15,439
– Share of investments accounted for using the equity method	<b>2,333</b>	–
<b>Sub-total</b>	<b>5,045</b>	15,439
<b>Total</b>	<b>281,277</b>	292,711

Impairment loss on other assets of the Group decreased by 67.3% from RMB15.4 million in the first half of 2018 to RMB5.0 million in the first half of 2019, which was primarily due to the decrease in the impairment loss on art work invested by the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *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 26.2% from RMB83.8 million in the first half of 2018 to RMB61.8 million in the first half of 2019, primarily due to the decrease in the net profit of certain investees.

## *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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Operating profit before income tax	<b>431,143</b>	545,700
Operating margin <sup>(1)</sup>	<b>50.2%</b>	57.4%

*Note:*

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

As a result of the foregoing, the Group's operating profit before income tax decreased by 21.0% from RMB545.7 million in the first half of 2018 to RMB431.1 million in the first half of 2019, and the Group's operating profit margin decreased from 57.4% in the first half of 2018 to 50.2% in the first half of 2019.

## *Income Tax Expense*

The Company's income tax expense decreased by 13.8% from RMB119.3 million in the first half of 2018 to RMB102.9 million in the first half of 2019 primarily due to a decrease in taxable profit generated by the Company in the first half of 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net Profit Attributable to shareholders of the Company and Net Profit Margin

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

	Six months ended 30 June	
	2019	2018
	<i>(RMB in thousands)</i>	
Net profit attributable to shareholders of the Company	<b>328,282</b>	426,391
Net profit margin <sup>(1)</sup>	<b>38.3%</b>	44.8%

Note:

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

As a result of the foregoing, the net profit attributable to the shareholders of the Company decreased by 23.0% from RMB426.4 million in the first half of 2018 to RMB328.3 million in the first half of 2019. The Company's net profit margin decreased from 44.8% in the first half of 2018 to 38.3% in the first half of 2019.

## Segment Results of Operations

From the business perspective, the Company conducts its business through two main business segments: trust business and proprietary business. The following table sets forth the Group's segment income and its main components for the periods indicated:

	Six months ended 30 June	
	2019	2018
	<i>(RMB in thousands)</i>	
<b>Trust business:</b>		
Operating income	<b>477,558</b>	447,390
Segment income	<b>477,558</b>	447,390
<b>Proprietary business:</b>		
Operating income	<b>380,457</b>	503,639
Share of profit of investments accounted for using the equity method	<b>61,833</b>	83,814
Segment income	<b>442,290</b>	587,453



# MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Trust business	<b>(105,054)</b>	(118,525)
Proprietary business	<b>(383,651)</b>	(370,618)
<b>Total operating expenses</b>	<b>(488,705)</b>	(489,143)

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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Trust business	<b>372,504</b>	328,865
Proprietary business	<b>58,639</b>	216,835
<b>Total operating profit before income tax</b>	<b>431,143</b>	545,700

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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(RMB in thousands)</i>	
Trust business	<b>78.0%</b>	73.5%
Proprietary business	<b>13.3%</b>	36.9%

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trust Business

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

The segment operating profit before income tax for the Group's trust business increased by 13.3% from RMB328.9 million in the first half of 2018 to RMB372.5 million in the first half of 2019, primarily due to an increase of 6.7% in the segment income from the trust business from RMB447.4 million in the first half of 2018 to RMB477.6 million in the first half of 2019. The segment operating expenses in the trust business decreased by 11.4% from RMB118.5 million in the first half of 2018 to RMB105.1 million in the first half of 2019.

The increase in the segment income from the trust business was mainly due to an increase in the Group's fee and commission income from RMB442.1 million in the first half of 2018 to RMB477.1 million in the first half of 2019.

The decrease in the segment operating expenses in the trust business was mainly due to a decrease in staff cost from RMB74.0 million in the first half of 2018 to RMB62.4 million in the first half of 2019, while the other operating expenses decreased from RMB31.6 million in the first half of 2018 to RMB29.9 million in the first half of 2019.

As a result of the foregoing, the segment margin of the trust business increased from 73.5% in the first half of 2018 to 78.0% in the first half of 2019.

## Proprietary Business

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



# MANAGEMENT DISCUSSION AND ANALYSIS

The segment operating profit before income tax for the Group's proprietary business decreased by 73.0% from RMB216.8 million in the first half of 2018 to RMB58.6 million in the first half of 2019, primarily due to a decrease of 24.7% in the segment income from the proprietary business from RMB587.5 million in the first half of 2018 to RMB442.3 million in the first half of 2019. The segment operating expenses from the proprietary business increased by 3.5% from RMB370.6 million in the first half of 2018 to RMB383.7 million in the first half of 2019.

- (1) The decrease in the segment income from the proprietary business was mainly due to (i) a decrease in interest income from RMB351.4 million in the first half 2018 to RMB243.2 million in the first half of 2019 and (ii) a decrease in net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in the first half 2018, and there were no such gains incurred in the first half of 2019. The interest income and net gains on disposal of associates held by consolidated structured entities are partially offset by the increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB9.1 million in the first half of 2018 to RMB133.9 million in the first half of 2019 and the investment losses of RMB18.0 million in the first half of 2018, as compared to the gains of RMB3.1 million in the first half of 2019.
- (2) The increase in segment operating expenses from the proprietary business was mainly due to the increase in interest expenses from RMB43.8 million in the first half of 2018 to RMB85.6 million in the first half of 2019. Interest expenses were offset by the decrease in the change in net assets attributable to other beneficiaries of consolidated structured entities from RMB26.8 million in the first half of 2018 to RMB11.3 million in the first half of 2019, and the decrease in impairment losses of other assets from RMB15.4 million in the first half of 2018 to RMB5.0 million in the first half of 2019.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 36.9% in the first half of 2018 to 13.3% in the first half of 2019.

## Selected Consolidated Financial Positions

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Assets

As at 31 December 2018 and 30 June 2019, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB13,611.8 million and RMB13,659.5 million, respectively, of which the total assets of the Company amounted to RMB10,975.9 million and RMB11,111.0 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 FVPL, (v) cash and bank deposits balances, (vi) trustee's remuneration receivable and (vii) financial assets purchased under agreement to resell. As at 30 June 2019, the above-mentioned major assets accounted for 48.0%, 17.5%, 0.5%, 14.6%, 3.4%, 2.5% and 5.2%, respectively, of the total assets of the Group.

## Loans to Customers

The following table sets forth the gross amount of the Group's loans to customers, provision for expected credit losses, net amount of the Group's loans to customers, as well as classification of the Group's loans to customers into non-current and current assets as at the dates indicated:

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	<b>7,339,541</b>	7,683,391
Interest receivable	<b>61,458</b>	75,340
Less: Expected credit losses provision – loans	<b>(846,984)</b>	(600,424)
Expected credit losses provision – interest receivable	<b>(1,020)</b>	(1,554)
<b>Loans to customers, net</b>	<b>6,552,995</b>	7,156,753
Classified as:		
– Non-current assets	<b>5,254,303</b>	3,249,109
– Current assets	<b>1,298,692</b>	3,907,644
<b>Loans to customers, net</b>	<b>6,552,995</b>	7,156,753

The majority of the Group's loans to customers were granted by the Company's consolidated trust schemes.





# MANAGEMENT DISCUSSION AND ANALYSIS

All of the Group's loans provided 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 48.4% from RMB1,375.4 million as at 31 December 2018 to RMB2,041.4 million as at 30 June 2019. 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 2018 and 30 June 2019 were RMB765.3 million and RMB823.7 million, respectively. The Company determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB470.3 million and RMB758.6 million for these impaired loans as at 31 December 2018 and 30 June 2019, respectively, representing 34.2% and 37.2% of the gross amount of those loans, respectively. The Company has provided impairment allowances as such impairment allowances were provided in accordance with the provisions under IFRS 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 17.9% and 27.8% of the Group's gross loans to customers as at 31 December 2018 and 30 June 2019, respectively.

While the Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans, the Company does not regularly conduct such business. As at 30 June 2019, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 11.1% and 10.1% of the gross amount of the Company's loans to customers and the net amount of the Company's loans to customers, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the gross amount of the Company's proprietary loans, provision for expected losses on credit assets, net amount of such loans, as well as classification of such loans into non-current and current assets as at the dates indicated:

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	<b>812,000</b>	602,000
Interest receivable	<b>34,920</b>	28,500
Less: Expected credit losses provision – loans	<b>(156,498)</b>	(85,427)
Expected credit losses provision – interest receivable	<b>(30,833)</b>	(588)
<b>Loans to customers, net</b>	<b>659,589</b>	544,485
Classified as:		
– Non-current assets	<b>655,502</b>	148,185
– Current assets	<b>4,087</b>	396,300
<b>Loans to customers, net</b>	<b>659,589</b>	544,485

As the Company's proprietary loans were granted to counterparty clients of the Company, changes in the amount of such loans during the Reporting Period mainly reflected the Company's agreements with different counterparty clients at different times.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Investments in Associates

The Company has made equity investments in various companies. 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 the associates of the Company's certain consolidated structured entities, associates indirectly held by the Group through trust schemes measured at fair value and the book value of investments in them as at the dates indicated:

	Equity Interest as at 30 June 2019	As at 30 June 2019	As at 31 December 2018 (Audited)
<i>(RMB in thousands)</i>			
<b>Associates of the Company accounted for using the equity method:</b>			
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限公司)	16.68%	589,542	565,995
Dezhou Bank Co., Ltd.* (德州銀行股份有限公司)	2.37%	96,367	150,010
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司)	45.00%	54,170	68,833
Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	10.00%	189,699	192,474
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	9.85%	215,335	207,147
Others		53,250	61,760
<b>Gross amount</b>		<b>1,198,363</b>	1,246,219
Less: Impairment allowance		-	-
<b>Associates of the Company accounted for using the equity method, net</b>		<b>1,198,363</b>	1,246,219

# MANAGEMENT DISCUSSION AND ANALYSIS

Equity Interest as at 30 June 2019	As at 30 June 2019	As at 31 December 2018 (Audited)	
<i>(RMB in thousands)</i>			
<b>Associates of the Company's certain consolidated structured entities accounted for using the equity method:</b>			
Shandong Provincial Financial Asset Management Co., Ltd.* (山東省金融資產管理股份有限公司)	7.24%	628,266	621,044
Tailong Health Industry Investment Company Limited* (太龍健康產業投資有限公司)	26.05%	52,100	52,100
Others		33,392	33,391
<b>Gross amount</b>		<b>713,758</b>	706,535
Less: Impairment allowance		<b>(10,000)</b>	(7,667)
<b>Associates of the Company's certain consolidated structured entities accounted for using the equity method, net</b>		<b>703,758</b>	698,868
<b>Associates indirectly held by the Group through trust schemes measured at fair value:</b>			
Shenzhen Qianhai Run Xin Investment Co., Ltd.* (深圳前海潤信投資有限公司)	30.00%	20,868	18,900
Henan Liang Ding Property Co., Ltd.* (河南梁鼎置業有限公司)	35.00%	116,441	94,650
Liaocheng Liang Hong Property Co., Ltd.* (聊城梁宏置業有限公司)	15.00%	32,304	50,144
Cangzhou Liangsheng Property Development Co., Ltd.* (滄州梁生房地產開發有限公司)	39.00%	97,814	-
Tianjin Liangxin Property Development Co., Ltd.* (天津梁信房地產開發有限公司)	40.00%	85,641	-
Tianjin Liangshun Property Development Co., Ltd.* (天津梁順房地產開發有限公司)	40.00%	67,799	-
Tengzhou Haide Park Property Co., Ltd.* (滕州海德公園地產有限公司)	20.20%	66,145	-
<b>Total amount</b>		<b>487,012</b>	163,694
<b>Total</b>		<b>2,389,133</b>	2,108,781



# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Assets at FVPL

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

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in thousands)</i>	
Listed shares	<b>74,666</b>	42,482
Mutual funds	<b>770,854</b>	406,505
Asset management products	<b>420,446</b>	168,603
Investment in trust schemes	<b>273,533</b>	312,858
Trust Industry Protection Fund	<b>95,701</b>	92,109
Equity investment in unlisted entities	<b>362,603</b>	556,314
<b>Total</b>	<b>1,997,803</b>	1,578,871

The changes in the major composition of the Group's financial assets at FVPL were due to the flexible adjustment of portfolio based on the market conditions by the Company in order to increase investment returns. Financial assets at FVPL increased by 26.5% from RMB1,578.9 million as at 31 December 2018 to RMB1,997.8 million as at 30 June 2019, primarily due to (i) the increase in the Group's investment in mutual funds; (ii) the increase in the Group's investment in asset management products; (iii) decrease in the Group's equity investment in unlisted entities.

## Cash and Bank Deposits Balance

As at 31 December 2018 and 30 June 2019, the Group's cash and bank deposits balance amounted to RMB1,081.3 million and RMB459.6 million, respectively, of which RMB898.7 million and RMB198.0 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank deposits balance of the Group's consolidated trust schemes.

## Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable increased by 33.1% from RMB251.8 million as at 31 December 2018 to RMB335.2 million as at 30 June 2019. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 31 July 2019, 8.8% of the trustee's remuneration receivable was recovered.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Financial Assets Purchased under the Agreements to Resell*

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

The Company's government bond purchased under agreements to resell increased by 650.6% from RMB95.1 million as at 31 December 2018 to RMB713.8 million as at 30 June 2019. These changes were due to the flexible adjustment of the business scale of the Company's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Company's government bond purchased under agreements to resell as at 31 December 2018 and 30 June 2019, respectively.

## *Prepayments*

The Company's prepayments decreased from RMB161.0 million as at 31 December 2018 to RMB11.6 million as at 30 June 2019, primarily related to the decrease in prepayments made by the Company's consolidated trust schemes as at 30 June 2019.

## *Contribution to Trust Industry Protection Fund due from Counterparty Clients*

Pursuant to the Measures for the Administration of Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pays to Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts. The Company recorded the amounts of contribution funds it has paid on behalf of its counterparty clients as contribution to Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB560.2 million and RMB614.0 million as at 31 December 2018 and 30 June 2019, respectively, among which RMB316.6 million and RMB333.2 million were classified as non-current assets, and RMB243.6 million and RMB280.8 million were classified as current assets. Instead of collecting such amounts from the counterparty clients before liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by Trust Industry Protection Fund upon termination of the financing trusts. At the end of the Reporting Period, the Company has not encountered any difficulties in recovering such amounts from distributions made by Trust Industry Protection Fund upon termination of the Company's financing trusts.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Liabilities*

As at 31 December 2018 and 30 June 2019, the Group's total liabilities amounted to RMB4,071.1 million and RMB4,221.4 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the 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, dividend payable, income tax payables, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 30 June 2019, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, dividend payable, income tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 56.5%, 9.9%, 8.9%, 2.5%, 2.2% and 19.9% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) decreased by 5.6% from RMB2,525.8 million as at 31 December 2018 to RMB2,384.4 million as at 30 June 2019. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

## *Income Tax Payable*

The Company's income tax payable decreased by 44.5% from RMB188.9 million as at 31 December 2018 to RMB104.7 million as at 30 June 2019.

## *Other Current Liabilities*

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

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB283.7 million as at 31 December 2018 to RMB389.0 million as at 30 June 2019.

The Company's deferred trustee's remuneration increased from RMB66.5 million as at 31 December 2018 to RMB71.6 million as at 30 June 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 SAT on 30 June 2017 (the “**Notice**”). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As of 30 June 2019, the outstanding VAT for trusts and the related surcharges amounted to RMB88.3 million.

## *Off-balance Sheet Arrangements*

As at 30 June 2019, 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 2018 and 30 June 2019, the Company had consolidated 51 and 50 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB8,676.8 million and RMB8,414.0 million, respectively. The following table sets forth changes in the number of the Group’s consolidated trust schemes during the Reporting Period:

	As at 30 June 2019	As at 31 December 2018
<b>Beginning:</b>	<b>51</b>	45
Newly consolidated trust schemes	7	23
Deconsolidated trust schemes	8	17
<b>Ending:</b>	<b>50</b>	51





# MANAGEMENT DISCUSSION AND ANALYSIS

The consolidation of these trust schemes significantly increased the Company's total assets during the Reporting Period due to the inclusion of assets of these trust schemes (consisting of loans to customers, financial assets at FVPL, investments 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 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in millions)</i>	
Total assets of the Company	<b>11,111</b>	10,976
Total assets of consolidated trust schemes	<b>8,414</b>	8,677
Consolidation adjustment	<b>(5,866)</b>	(6,041)
<b>Total assets of the Group</b>	<b>13,659</b>	13,612

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

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in millions)</i>	
Total liabilities of the Company	<b>1,841</b>	1,608
Total liabilities of consolidated trust schemes	<b>8,414</b>	8,677
Consolidation adjustment	<b>(6,034)</b>	(6,214)
<b>Total liabilities of the Group</b>	<b>4,221</b>	4,071

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2019	As at 31 December 2018 (Audited)
	<i>(RMB in millions)</i>	
Total equity of the Company	<b>9,270</b>	9,368
Consolidation adjustment	<b>168</b>	173
<b>Total equity of the Group</b>	<b>9,438</b>	9,541

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

	<b>Six months ended 30 June</b>	
	2019	2018
	<i>(RMB in millions)</i>	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	<b>332</b>	352
Impact of consolidation of trust schemes	<b>(4)</b>	74
<b>Net profit attributable to the Group's shareholders after consolidation of trust schemes</b>	<b>328</b>	426



# MANAGEMENT DISCUSSION AND ANALYSIS

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

- (1) Whether the Company has power over the trust scheme, and whether the Company can exercise the rights that give the Company the ability to affect the relevant activities of the trust scheme. Usually the Company has such power when it acts as the trustee of those actively managed trusts, as the contractual terms in the trust contracts allow the Company to determine the selection of assets or projects in which the trust assets will be invested in, to perform due diligence on the assets or projects as well as the counterparties that hold the assets or projects, to determine the pricing strategy, and to be actively involved in the ongoing management and disposition of the trust assets;
- (2) Whether the Company is exposed to the risks of or has rights to, variable returns from its involvement as the trustee when the Company's returns from its involvement have the potential to vary as a result of the performance of the trust scheme. Such variable returns may either form a part of the investment returns from the trust scheme when the Company has proprietary funds invested in the trust scheme, or as floating trustee's remuneration as are calculated according to the relevant terms in the trust contracts; and
- (3) Whether the Company controls the trust scheme that the Company not only has the power over the trust scheme and exposure or rights to variable returns from its involvement, but also the ability to use its power to affect the returns from the trust scheme. As the Company is responsible for the planning, pricing, setting of beneficial rights, management and operations of those actively managed trust schemes as the trustee, the Company may have the ability to significantly affect its returns from such trust schemes. For example, where the Company subscribes a significant portion of a trust scheme, or in case the Company decides to provide liquidity support to a troubled trust, the Company intentionally uses its rights as the trustee and ability to invest using proprietary funds, so as to associate itself with the variable returns from such trust schemes.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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 the 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.

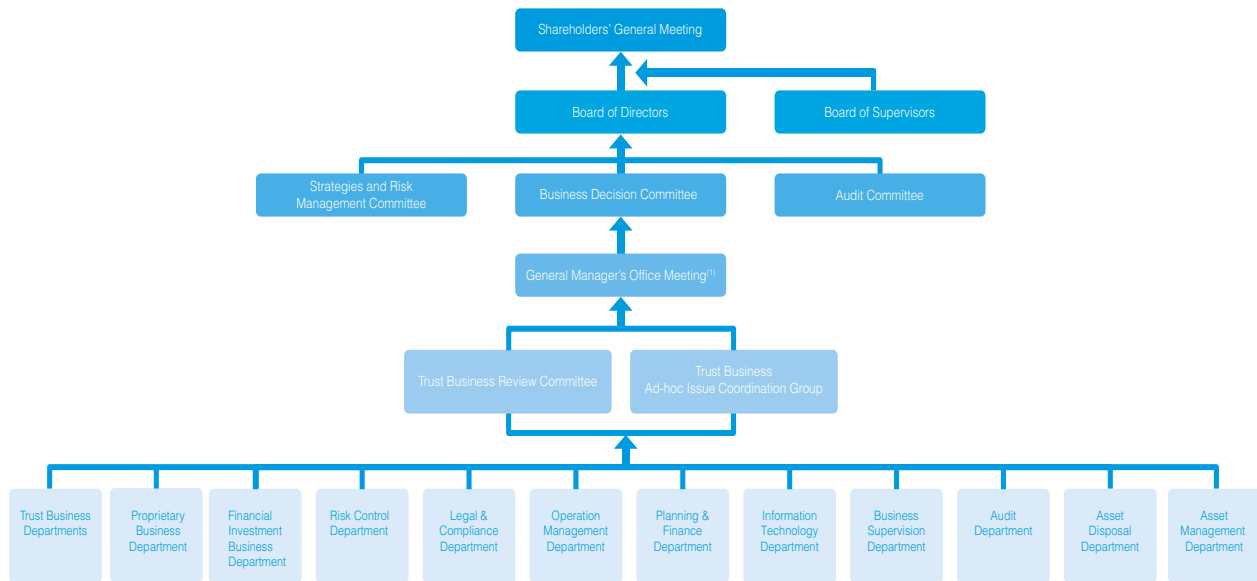
### Risk Management Organisational Structure

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 and Finance Department, Information Technology 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 (including Regional Business Units) are required to assume primary risk management responsibilities.



# MANAGEMENT DISCUSSION AND ANALYSIS

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



*Note:*

- (1) Covering all 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 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. Since 2018, "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.



# MANAGEMENT DISCUSSION AND ANALYSIS

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 its advantages and face 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 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *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 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 affecting 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 affecting 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.





# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Risk Management

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

## Liquidity Risk Management

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

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

## Compliance Risk Management

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## Operational Risk Management

Operational risk refers to the risk of financial loss resulting from the improper operation of transactional processes or the management system. During the Reporting Period, to minimise the operational risk, the Company implemented strict operational risk control mechanisms to reduce the risks of technical irregularities or human errors and enhanced the effectiveness of the operational risk management. In addition, the Audit Department of the Company shall be responsible for conducting internal auditing and evaluating the effectiveness of the operational risk management.

## Reputational Risk Management

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

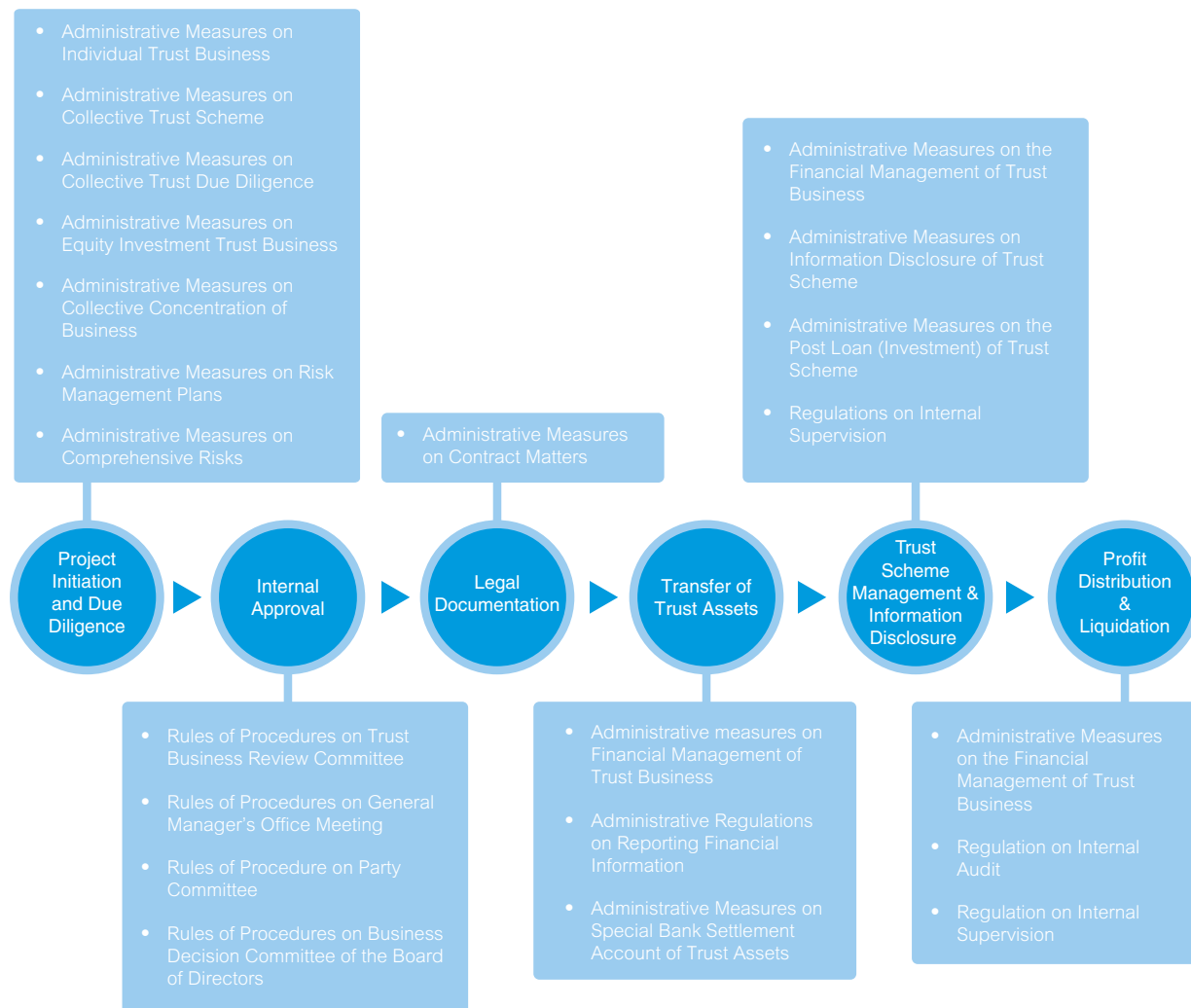
## Other Risk Management

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Risk Management Systems and Policies

The Company has put in place systems and policies in every aspect and stage of our business operation. These internal systems constitute a complete risk management system. The main systems and policies applicable to the Company's trust business may be illustrated as follows:



# MANAGEMENT DISCUSSION AND ANALYSIS

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

## Anti-money Laundering Management

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

The Company established an Anti-Money Laundering 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 due diligence on the comprehensive background of 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Company's Administrative Measures on Anti-Money Laundering also specify certain criteria of demining a suspicious transaction and establish a suspicious transaction reporting system. Based on such criteria, business departments of the Company are required to immediately report to the Anti-Money Laundering Work 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 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 aggregate of (i) risk-based capital of the Company's proprietary business; (ii) risk-based capital of the Company's trust business; and (iii) risk-based capital of the Company's other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for the Company's proprietary business, and 0.1% to 9.0% for the Company's trust business.

As at 30 June 2019, the Company's net capital was approximately RMB7,813 million, which is not less than RMB200 million; the total risk-based capital was approximately RMB4,551 million; the ratio of net capital to total risk-based capital was 171.67%, which is not lower than 100%; and the ratio of net capital to net asset was 84.28%, which is not lower than 40%.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PROSPECT

In the coming period, the downside risks to global economic growth will increase, but the overall recovery will continue. Trade frictions, financial market sentiment, geopolitics and other factors will exacerbate the uncertainty in the global economy and financial markets. The development of China is under and will be under important strategic opportunity period for a long-term. There are more favorable factors for China's economy to maintain steady development, resulting in potential and resilience in economic growth. At the same time, the international environment and domestic conditions facing by China's economic development are undergoing profound and complex changes. The risk of long-term accumulation is exposed, the economy is still facing downward pressure, and the economic operation is experiencing stable with changing development and there are concern in changes. The financial industry will focus on structural reforms in the supply-side of services, improve the economic capabilities of financial services, prevent financial risks, deepen reform, expand and open up, and actively shift to high-quality development. The trust industry will open a new journey in the context of the new asset management structure. The trust industry will be more determined to return to the trust source as the core, to serve the real economy as the foundation, to transform and innovate as the driving force, and assisting people for better life to strengthen risk management, grasp the speed of development, improve the quality and efficiency of development, and strive to adapt to the new era.

## HUMAN RESOURCES MANAGEMENT

Guided by the target of corporate strategies for the human resources work of the Company in 2019, 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. Based on the above, the Company introduced the talent and established the team of Regional Business, 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".

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

As at 30 June 2018 and 30 June 2019, the Company has a total of 212 and 221 employees, respectively. The number and percentage of different employees by departments are as follows:

	30 June 2019		30 June 2018	
	Number of employees	%	Number of employees	%
Management	8	3.62	9	4.25
Trust business employees	89	40.27	75	35.38
Proprietary business employees	6	2.72	7	3.30
Wealth management employees	23	10.41	23	10.85
Risk management and audit employees	25	11.31	32	15.09
Financial and accounting employees	14	6.33	17	8.02
Operation management employees	32	14.48	32	15.09
Other staff <sup>(1)</sup>	24	10.86	17	8.02
<b>Total</b>	<b>221</b>	<b>100</b>	212	100.00

Note:

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





# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2018 and 30 June 2019, the details of employees by age are as follows:

	30 June 2019		30 June 2018	
	Number of employees	%	Number of employees	%
Aged 25 and below	0	0	0	0
Aged 25–29	41	18.55	44	20.75
Aged 30–39	125	56.56	114	53.78
Aged 40 and above	55	24.89	54	25.47
<b>Total</b>	<b>221</b>	<b>100</b>	212	100

As at 30 June 2018 and 30 June 2019, the details of employees by education level are as follows:

	30 June 2019		30 June 2018	
	Number of employees	%	Number of employees	%
Doctoral degree and above	6	2.71	6	2.83
Master's degree	153	69.23	146	68.87
Bachelor's degree	51	23.08	50	23.58
Junior college and below	11	4.98	10	4.72
<b>Total</b>	<b>221</b>	<b>100</b>	212	100

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## CHANGE IN SHARE CAPITAL

Category of shares	31 December 2018			30 June 2019	
	Number of shares	Percentage (%)	Increase or decrease during the Reporting Period	Number of shares	Percentage (%)
Domestic Shares	1,941,175,000	75	+1,552,940,000	<b>3,494,115,000</b>	<b>75</b>
H Shares	647,075,000	25	+517,660,000	<b>1,164,735,000</b>	<b>25</b>
Total	2,588,250,000	100	+2,070,600,000	<b>4,658,850,000</b>	<b>100</b>

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 interim 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 “Change of Registered Capital and Capital Structure” in the section “Significant Events” in this interim report.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2019, 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 <sup>(1)</sup>	Number of underlying shares held <sup>(2)</sup>	Approximate percentage of the class of underlying shares <sup>(2)</sup>	Approximate percentage of total share capital <sup>(2)</sup>
Shandong High-Tech Venture Capital Co., Ltd. <sup>(3)</sup>	Domestic Shares	Beneficial owner	125,000,000	6.44%	4.83%
Lucion Venture Capital Group Co., Ltd. <sup>(3)</sup>	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%
Shandong Lucion Investment Holdings Group Co., Ltd. <sup>(3),(4)</sup>	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%



# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Class of shares	Nature of interests <sup>(1)</sup>	Number of underlying shares held <sup>(2)</sup>	Approximate percentage of the class of underlying shares <sup>(2)</sup>	Approximate percentage of total share capital <sup>(2)</sup>
Shandong Provincial State-owned Assets and Administration Commission <sup>(4)</sup>	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
Shandong Provincial Council for Social Security Fund <sup>(4)</sup>	Domestic Shares	Interest in a controlled corporation	1,344,668,100	69.27%	51.95%
CNPC Assets Management Co., Ltd. <sup>(5)</sup>	Domestic Shares	Beneficial owner	485,293,750	25.00%	18.75%
CNPC Capital Company Limited <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
China National Petroleum Corporation <sup>(5)</sup>	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 <sup>(6)</sup>	H Shares	Interest in a controlled corporation	140,425,000 <sup>(7)</sup>	21.70%	5.43%
Jinan Finance Holding Group Co., Ltd. <sup>(6)</sup>	H Shares	Beneficial owner	140,425,000 <sup>(7)</sup>	21.70%	5.43%
Qingdao Global Wealth Center Development and Construction Co., Ltd. <sup>(8)</sup>	H Shares	Beneficial owner	130,900,000	20.23%	5.06%
Qingdao Laoshan District Finance Bureau <sup>(8)</sup>	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 <sup>(9)</sup>	H Shares	Beneficial owner	62,924,000	9.72%	2.43%
China Asset Management Co., Ltd. <sup>(9)</sup>	H Shares	Investment manager	62,924,000	9.72%	2.43%
Dingxin Company Limited <sup>(10)</sup>	H Shares	Beneficial owner	51,315,000	7.93%	1.98%
Honesty Global Holdings Limited <sup>(10)</sup>	H Shares	Interest in a controlled corporation	51,315,000	7.93%	1.98%
Ou Guofei <sup>(11)</sup>	H Shares	Founder of a discretionary trust	51,315,000	7.93%	1.98%
Ou Zonghong <sup>(11)</sup>	H Shares	Beneficiary of a trust	51,315,000	7.93%	1.98%
TMF (Cayman) Ltd. <sup>(10), (11)</sup>	H Shares	Trustee	51,315,000	7.93%	1.98%
Xu Lixiang <sup>(11)</sup>	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%

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## Notes:

- (1) All of the interests refer to long positions.
- (2) According to the authorization of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, on 8 January 2019, 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 (i.e. 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 of the Company as at 30 June 2019 were 4,658,850,000 Shares, comprising 3,494,115,000 Domestic Shares and 1,164,735,000 H Shares. Number and percentage of Shares disclosed herein were taken from those reported in the form of disclosure of interests. Since the change of number of Shares arising from Capitalisation Issue did not constitute reporting obligation pursuant to the SFO, the updated number of shares were not reflected in the form of disclosure of interests.
- (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 69.57% 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 Capital 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 30 June 2019, 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 the form of disclosure of interests.
- (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 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 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## PROFILE

### Directors

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

### Supervisors

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

### Senior Management

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

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Changes of Directors

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.

### Changes of Supervisors

During the Reporting Period, there was no change of Supervisors of the Company.

### Changes of senior management

During the Reporting Period, there was no change of senior management of the Company.

Upon consideration and approval at the Board meeting on 9 July 2019, Mr. Ma Wenbo, chief financial officer of the Company, ceased to serve as chief financial officer of the Company due to work arrangement. The Board engaged Mr. Wang Ping to serve as chief financial officer of the Company on the same date. The qualification of Mr. Wang Ping to serve as chief financial officer shall be subject to the approval of the Shandong Office of the CBIRC. Prior to that, Mr. Ma Wenbo continued to assume responsibilities as chief financial officer.

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

## CORPORATE GOVERNANCE

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

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

## CORPORATE GOVERNANCE CODE

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

## SHAREHOLDERS' GENERAL MEETING

The Company held the 2018 annual general meeting in Jinan on 23 May 2019, at which 9 resolutions were considered and approved, including the 2018 Work Report of the Board, 2018 Work Report of the Independent Directors, 2018 Work Report of the Board of Supervisors, 2018 Final Account Report, 2018 Profit Distribution Plan, and grant of general mandate to the Board to issue shares; and listened to the 2018 Net Capital Report and the Report on the Due Payment of Trust Business of the Company and the Realization of the Interests of Beneficiaries of 2018.

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



# SIGNIFICANT EVENTS

## THE BOARD

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

During the Reporting Period, the Company convened 2 board meetings and considered and approved 26 resolutions, including 2018 Work Report of the General Manager, the Resolution on 2018 Financial Report (Draft), the Resolution on 2018 Profit Distribution Plan (Draft) and the 2018 Work Report of the Board (Draft).

In the first half of 2019, the six committees under the Board convened total of 44 meetings and considered and approved 156 resolutions, including the Resolution on 2018 Annual Report and Results Announcement (Draft) and the Resolution on the 2018 Remuneration Plan for the Directors (Draft).

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

## THE BOARD OF SUPERVISORS

As at the date of the publication of this interim report, the Board of Supervisors comprised nine Supervisors. Pursuant to the Articles of Association, at least one-third of our Supervisors must be employee representatives elected by the employees. Mr. Tian Zhiguo, Ms. Li Aiping and Mr. Zuo Hui are elected by our employees while other Supervisors are elected and appointed by our Shareholders at the Shareholders' general meeting. Each of the Supervisors elected by our employees or by our Shareholders is appointed for a term of three years, which is eligible for re-election and re-appointment.

During the Reporting Period, the Board of Supervisors convened a total of 1 meeting and considered and approved 8 resolutions, including the 2018 Work Report of the Board of Supervisors (Draft) and the Resolution on the 2018 Remuneration Plan for the Supervisors (Draft).

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

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



# SIGNIFICANT EVENTS

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

## SENIOR MANAGEMENT

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

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

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management and Internal Control Systems

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

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

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





# SIGNIFICANT EVENTS

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

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

## Internal Auditing

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

During the Reporting Period, the 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 organized and coordinated the Company's annual internal audit during the Reporting Period based on the annual internal audit work plan for 2019. In addition, the Company organized the risk management and internal control assessment team as well as relevant departments to closely cooperate with the external auditors in the work of internal control audit of financial statements. The internal control audit has performed auditing for all key processes and control points related to major accounting subjects. The external auditors regularly communicated with the management on audit results.



# SIGNIFICANT EVENTS

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

- (1) The Company audited 2018 operating activities, business performance and internal management of the Company. The Company attached great importance to the implementation of internal control, development of regulation system and compliance system of the Company, as well as the enhancement of risk management and control and the ability to withstand risk. The Company actively provided advice and suggestions for the optimization of corporate operation and management and enhancing corporate value, so as to perform obligation of internal auditors to supervise;
- (2) The Company objectively evaluated the development of 2018 internal control system of the Company, carrying out the evaluation of internal controls in terms of control environment, risk assessments, control activities, information and communication and internal supervision of the Company. The Company provided remedial measures for the possible internal control deficiencies, constantly improving and streamlining the internal control system of the Company;
- (3) The Company conducted targeted inspections on existing trust business on a regular basis and focused on the compliance of business implementation, completeness of duty performance and validity of internal supervision in terms of projects approval, due diligence review, project approval, project establishment and duration management, so as to improve standard business management; and
- (4) 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.

## PROFITS AND DIVIDENDS DISTRIBUTION

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

As approved by the 2018 Annual General Meeting convened on 23 May 2019, the Company paid a cash dividend of RMB0.081 per share (tax inclusive) (the total dividend of approximately RMB377.4 million (tax inclusive)), on 22 July 2019, to holders of H Shares and Domestic Shares whose names appear on the register of the members of the Company on 17 June 2019.

The Company will not declare the interim dividend for the year 2019.



# SIGNIFICANT EVENTS

## USE OF PROCEEDS

The Company was listed on the Hong Kong Stock Exchange on 8 December 2017. A total of 647,075,000 H Shares were issued in the global offering. 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 30 June 2019, HK\$2,326 million was settled to the Company's domestic accounts and was collected in full together with the Company's existing proprietary assets for allocation to different assets classes, significantly increasing the Company's net capital. Certain proceeds were retained overseas, and intended to be utilised for expansion of international business and seeking for cooperation in the field 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.

## CHANGE OF REGISTERED CAPITAL AND CAPITAL STRUCTURE

According to the authorization of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, on 8 January 2019, 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 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 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.

## MATERIAL LEGAL PROCEEDINGS AND ARBITRATION

As at 30 June 2019, we, being the plaintiff and applicant, were involved in ten pending material litigations involving an amount of more than RMB10 million for the dispute, the value of the litigations or arbitrations in which we were involved totaled approximately RMB2,027.04 million. These litigations or arbitrations were mainly brought by us against the relevant counterparty clients due to their failure to repay the loans granted by our trusts.

As at 30 June 2019, the Company, being the defendant, was involved in two pending litigations, of which the amount in dispute was more than RMB10 million, the value of the litigation in which the Company was involved in amounted to RMB100 million and RMB300 million, respectively. The Company believes that these claims or potential claim by the plaintiffs against the Company are frivolous, therefore, the Company did not make any provision in connection with these litigations. The Directors do not expect such legal proceedings to have, individually or in aggregate, a material adverse effect on the Company's financial condition or results of operations.

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 26 August 2019, the Company entered into the Renewed Framework Agreements with certain connected persons of the Company to renew (i) the Existing CNPC Assets Management Trust Framework Agreement; (ii) the Existing Lucion Group Trust Framework Agreement; (iii) the Existing Lucion Group Trust Financing Framework Agreement; (iv) the Existing Lucion Outdoor Advertising Framework Agreement; (v) the Existing Taishan Trust Consulting Framework Agreement and (vi) the Existing Lucion Information Technology Service Framework Agreement, respectively, for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

Since (i) CNPC Assets Management is a Substantial Shareholder of the Company holding approximately 18.75% of the total issued Shares of the Company; (ii) Lucion Group is the Controlling Shareholder of the Company holding approximately 47.12% of the total issued Shares of the Company; (iii) each of Shandong Luxin Advertisement and Luxin Science and Technology is a non wholly-owned subsidiary of Lucion Group; and (iv) Shandong Taishan Culture Art Exchange is a 30%-controlled company held by Lucion Group, each of the above mentioned entities is a connected person of the Company and the transactions to be contemplated under the Renewed Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratio(s) (other than the profits ratio) (as defined in Rule 14.07 of the Listing Rules) in respect of the respective highest annual caps of the transactions to be contemplated under the (i) Lucion Outdoor Advertising Framework Agreement; (ii) Taishan Trust Consulting Framework Agreement; and (iii) Lucion Information Technology Service Framework Agreement are more than 0.1% but less than 5%, the transactions to be contemplated thereunder are subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As one or more applicable percentage ratios (other than the profits ratio) (as defined in Rule 14.07 under the Listing Rules) in respect of the respective highest annual caps of the transactions to be contemplated under the (i) CNPC Assets Management Trust Framework Agreement; (ii) Lucion Group Trust Framework Agreement; and (iii) Lucion Group Trust Financing Framework Agreement exceeds 5%, the transactions to be contemplated thereunder are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



# SIGNIFICANT EVENTS

The Independent Board Committee has been formed to advise the Independent Shareholders with respect to (i) the CNPC Assets Management Trust Framework Agreement, (ii) the Lucion Group Trust Framework Agreement and (iii) the Lucion Group Trust Financing Framework Agreement and their respective proposed annual caps. Gram Capital has been appointed, with the approval of the Independent Board Committee, as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of (i) the CNPC Assets Management Trust Framework Agreement; (ii) the Lucion Group Trust Framework Agreement and (iii) the Lucion Group Trust Financing Framework Agreement and their respective proposed annual caps.

A circular containing, among other things, further details of (i) the CNPC Assets Management Trust Framework Agreement, the Lucion Group Trust Framework Agreement, the Lucion Group Trust Financing Framework Agreement and their respective proposed annual caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules, together with the notice of the general meeting, will be despatched to the Shareholders in due course.

## **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, the Company, and its Directors, Supervisors and senior management were not subject to any penalty.

## **IMPLEMENTATION OF EQUITY INCENTIVE PLAN**

During the Reporting Period, the Company did not implement any equity incentive plan.

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

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

## **MAJOR CLIENTS AND SUPPLIERS**

During the Reporting Period, the aggregate trustee's remuneration of the Company's top five trust schemes in terms of trustee's remunerations accounted for less than 30% of the Company's total fee and commission income during the relevant period.

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

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

## **SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

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

## **DIRECTORS AND SUPERVISORS’ INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

During the Reporting Period, none of the Directors or Supervisors directly or indirectly had any material interest in any material transaction, arrangement or contract in relation to the Company’s business, to which the Company, any of its subsidiaries or fellow subsidiaries, if any, was a party.

## **DIRECTORS’, SUPERVISORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES**

During the Reporting Period, none of the Directors, Supervisors, chief executive or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or which they were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## **DIRECTORS’ AND SUPERVISORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

During the Reporting Period, the Company had not been a party to any arrangement that would enable the Directors or Supervisors to benefit from the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## **PROVISIONAL REPORT ON MATERIAL ISSUES**

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



# SIGNIFICANT EVENTS

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim results of the Company for the six months ended 30 June 2019 and the financial statements for the six months ended 30 June 2019 prepared in accordance with the IFRS.

## AUDITOR

PricewaterhouseCoopers was appointed as the auditor to review the financial statements for the six months ended 30 June 2019 prepared in accordance with the IFRS. The interim financial statements disclosed in this interim report have not been audited. The enclosed consolidated financial statements prepared in accordance with the IFRS have been reviewed by PricewaterhouseCoopers. The Company has retained PricewaterhouseCoopers since the date of preparation of its listing. PricewaterhouseCoopers retired as the Company's auditor at the end of the forthcoming shareholders' annual general meeting of the Company and, being eligible, offered themselves for re-appointment. A resolution was proposed for approval by Shareholders at the 2018 annual general meeting of the Company to consider and approve the re-appointment of PricewaterhouseCoopers as the Company's overseas auditor for auditing 2019 financial statements and reviewing interim financial statements and PricewaterhouseCoopers Zhong Tian LLP as the Company's domestic auditor for auditing 2019 financial statements, which was approved by the Shareholders.

## SUBSEQUENT EVENTS

Save as disclosed above, the Company had no material matters subsequent to the Reporting Period.



# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

## **TO THE BOARD OF DIRECTORS OF SHANDONG INTERNATIONAL TRUST CO., LTD.**

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

## **INTRODUCTION**

We have reviewed the interim financial information set out on pages 72 to 135, which comprises the interim condensed consolidated statement of financial position of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **SCOPE OF REVIEW**

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

## **CONCLUSION**

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

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 August 2019





# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Six months ended 30 June	
		2019	2018
Fee and commission income	3	477,066	442,050
Interest income	4	243,701	351,740
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	5	133,862	9,051
Investment income/(loss)	6	3,072	(18,024)
Net gains on disposal of associates held by consolidated structured entities	7	–	160,851
Other operating income		314	5,361
<b>Total operating income</b>		<b>858,015</b>	<b>951,029</b>
Interest expenses	8	(85,581)	(43,778)
Staff costs (including directors and supervisors' emoluments)	9	(64,657)	(77,602)
Operating lease payments		(3,916)	(4,964)
Depreciation and amortisation		(5,004)	(4,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities		(11,321)	(26,751)
Tax and surcharges		(5,100)	(5,117)
Other operating expenses		(30,953)	(33,209)
Auditor's remuneration		(896)	(896)
Loan impairment charges and other credit risk provision	11	(276,232)	(277,272)
Impairment losses on other assets	12	(5,045)	(15,439)
<b>Total operating expenses</b>		<b>(488,705)</b>	<b>(489,143)</b>
Share of profit of investments accounted for using the equity method		61,833	83,814
<b>Profit before income tax</b>		<b>431,143</b>	<b>545,700</b>
Income tax expense	13	(102,861)	(119,309)
<b>Net profit attributable to shareholders of the Company</b>		<b>328,282</b>	<b>426,391</b>

# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Six months ended 30 June	
		2019	2018
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Share of other comprehensive income from investments accounted for using the equity method	28	723	3,508
<b>Total other comprehensive income, net of tax</b>		<b>723</b>	<b>3,508</b>
<b>Total comprehensive income attributable to shareholders of the Company</b>		<b>329,005</b>	<b>429,899</b>
<b>Basic and diluted earnings per share attributable to the shareholders of the Company (in RMB yuan)</b>	14	<b>0.07</b>	0.09
<b>Total comprehensive income for the period attributable to shareholders of the Company arises from:</b>			
Continuing operations		<b>329,005</b>	429,899
Discontinued operations		–	–

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	30 June 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	126,315	130,128
Investment properties	18	155,216	–
Right-of-use assets		1,235	N/A
Intangible assets		5,008	5,701
Investments in associates	16	2,389,133	2,108,781
Financial assets at fair value through profit or loss	23	1,152,283	1,129,884
Loans to customers	17	5,254,303	3,249,109
Financial investments-amortized cost		980	32,761
Advance payments	19	11,571	160,990
Deferred income tax assets	20	150,300	98,256
Other non-current assets	21	366,652	362,569
<b>Total non-current assets</b>		<b>9,612,996</b>	<b>7,278,179</b>
<b>Current assets</b>			
Cash and bank balance	22	459,599	1,081,254
Financial assets at fair value through profit or loss	23	845,520	448,987
Financial assets purchased under resale agreements	24	713,800	95,100
Loans to customers	17	1,298,692	3,907,644
Financial investments-amortized cost		66,522	88,714
Trustee's remuneration receivable		335,159	251,825
Other current assets	25	327,199	460,049
<b>Total current assets</b>		<b>4,046,491</b>	<b>6,333,573</b>
<b>Total assets</b>		<b>13,659,487</b>	<b>13,611,752</b>
<b>Equity and liabilities</b>			
Share capital	26	4,658,850	2,588,250
Capital reserve	26	106,273	2,231,139
Statutory surplus reserve	27	767,319	767,319
Statutory general reserve	27	756,073	756,073
Other reserves	28	(578)	(1,301)
Retained earnings		3,150,127	3,199,212
<b>Total equity</b>		<b>9,438,064</b>	<b>9,540,692</b>

# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	30 June 2019	31 December 2018
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Salary and welfare payable		69,800	62,697
Lease liabilities		581	N/A
Net assets attributable to other beneficiaries of consolidated structured entities	30	1,615,554	1,735,269
<b>Total non-current liabilities</b>		<b>1,685,935</b>	1,797,966
<b>Current liabilities</b>			
Short-term borrowings	31	420,000	450,000
Lease liabilities		669	N/A
Salary and welfare payable		23,869	18,738
Net assets attributable to other beneficiaries of consolidated structured entities	30	768,849	790,494
Income tax payable		104,725	188,854
Dividend payable		377,367	-
Other current liabilities	32	840,009	825,008
<b>Total current liabilities</b>		<b>2,535,488</b>	2,273,094
<b>Total liabilities</b>		<b>4,221,423</b>	4,071,060
<b>Total equity and liabilities</b>		<b>13,659,487</b>	13,611,752

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

The interim financial information was approved and authorised for issue by the Board of Directors on 26 August 2019 and signed on its behalf by :

\_\_\_\_\_  
Chairman and Executive Director

\_\_\_\_\_  
General Manager and Executive Director



# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital (Note 26)	Capital reserve (Note 26)	Statutory surplus reserve (Note 27)	Statutory general reserve (Note 27)	Other reserves (Note 28)	Retained earnings	Total
<b>Balance at 1 January 2019</b>	<b>2,588,250</b>	<b>2,231,139</b>	<b>767,319</b>	<b>756,073</b>	<b>(1,301)</b>	<b>3,199,212</b>	<b>9,540,692</b>
Net profit for the period	-	-	-	-	-	328,282	328,282
Other comprehensive income for the period	-	-	-	-	723	-	723
<b>Total comprehensive income</b>	-	-	-	-	723	328,282	329,005
Transfer capital reserve to share capital	2,070,600	(2,070,600)	-	-	-	-	-
Dividend distribution (Note 29)	-	-	-	-	-	(377,367)	(377,367)
Other	-	(54,266)	-	-	-	-	(54,266)
<b>Balance at 30 June 2019</b>	<b>4,658,850</b>	<b>106,273</b>	<b>767,319</b>	<b>756,073</b>	<b>(578)</b>	<b>3,150,127</b>	<b>9,438,064</b>
<b>Balance at 31 December 2017</b>	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	-	-	-	-	(36,800)	(16,082)	(52,882)
<b>Balance at 1 January 2018 (Restated)</b>	2,588,250	2,215,637	688,876	718,772	(7,351)	2,890,474	9,094,658
Net profit for the period	-	-	-	-	-	426,391	426,391
Other comprehensive income for the period	-	-	-	-	3,508	-	3,508
<b>Total comprehensive income</b>	-	-	-	-	3,508	426,391	429,899
Dividend distribution (Note 29)	-	-	-	-	-	(447,767)	(447,767)
Other	-	(33,847)	-	-	-	-	(33,847)
<b>Balance at 30 June 2018</b>	2,588,250	2,181,790	688,876	718,772	(3,843)	2,869,098	9,042,943

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Six months ended 30 June	
		2019	2018
<b>Cash flows from operating activities</b>			
Profit before income tax		431,143	545,700
Adjustments for:			
Depreciation and amortization		5,004	4,115
Loan impairment charges and other credit risk provision	11	276,232	277,272
Impairment losses on other assets	12	5,045	15,439
Fair value changes in financial assets at fair value through profit or loss and investment in associate measured at fair value		(133,862)	(9,051)
Change in net assets attributable to other beneficiaries of consolidated structured entities		11,321	26,751
Net gains on disposal of associates held by consolidated structured entities	7	–	(160,851)
Share of profit of investments accounted for using the equity method		(61,833)	(83,814)
Interest expense to China Trust Protection Fund Co., Ltd. and placement from other banks		15,788	31,698
Net gain on disposal of property and equipment, intangible assets and other long-term assets		(1)	–
Subtotal		548,837	647,259
Net change in operating assets and operating liabilities:			
Increase in financial assets at fair value through profit or loss		(307,603)	(202,158)
Decrease/(Increase) in loans to customers		357,732	(1,671,000)
Decrease in financial investments-amortized cost		53,828	62,608
Increase in other financial assets		–	(63,544)
(Increase)/Decrease in financial assets purchased under resale agreements		(618,700)	940,600
Net (increase)/decrease in other operating assets		(60,689)	6,212
Net (increase)/decrease in other operating liabilities		(41,099)	13,049
Cash used in operating activities before income tax		(67,694)	(266,974)
Income tax paid		(239,035)	(137,251)
<b>Net cash used in operating activities</b>		<b>(306,729)</b>	<b>(404,225)</b>



# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

		Six months ended 30 June	
	Note	2019	2018
<b>Cash flows from investing activities:</b>			
Dividends received from investments accounted for using the equity method		43,355	29,372
Proceeds from disposal of investment in associates		–	226,659
Purchase of property and equipment, intangible assets and other long-term assets		(3,743)	(16,465)
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		10	–
Purchase of investments in associates, measured at fair value		(296,440)	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(256,818)</b>	239,566
<b>Cash flows from financing activities</b>			
Repayment of short-term borrowings		(470,000)	(268,000)
Proceeds from short-term borrowings		440,000	1,118,000
Interest expense		(15,521)	(28,222)
Dividends paid to shareholders	29	–	(451,815)
<b>Net cash (used in)/generated from financing activities</b>		<b>(45,521)</b>	369,963
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(12,587)</b>	4,947
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(621,655)</b>	210,251
<b>Cash and cash equivalents at beginning of the period</b>		<b>1,081,254</b>	1,172,808
<b>Cash and cash equivalents at end of the period</b>	22	<b>459,599</b>	1,383,059
<b>Net cash flows from operating activities including:</b>			
Interest received		213,530	333,328
Interest paid		38,939	84,238

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 1. GENERAL

Shandong International Trust Co., Ltd. (“Shandong Trust” or “the Company”) is a non-bank financial institution incorporated in Shandong Province, the People’s Republic of China (the “PRC”) on 10 March 1987 with the approval from People’s Bank of China (“PBOC”) and Shandong Provincial Government. In August 2002, the Company was transformed from a wholly state owned company to a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi (“RMB”) 2,000,000,000 (RMB1 each per registered and issued share). On 8 December 2017, the Company completed its public offering and increased its share capital to RMB2,588,250,000. Its shares were listed on The Stock Exchange of Hong Kong Limited on the same day. Pursuant to the resolution of 2018 Special 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. The Company completed the conversion on 8 January 2019 and the amount of share capital was increased to RMB4,658,850,000.

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

The information of the consolidated structured entities as the Company’s subsidiaries are provided in Note 33. The Company and its subsidiaries are collectively referred to as “the Group”.

## 2. BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

### 2.1 Basis of preparation

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

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

The unaudited interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”).

Except as described below, the Group’s accounting policies applied in preparing the unaudited interim condensed consolidated financial information are consistent with those policies applied in preparing the financial statements for the year ended 31 December 2018.





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

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

### 2.1 Basis of preparation (Continued)

#### 2.1.1 New and amended standards adopted by the Group

In the current period, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial period beginning on 1 January 2019 and the relevant impact is set out below:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement of Employee
Amendments to IAS 28	Long-term Interests in Associates and Joint ventures

The adoption of the revised International Financial Reporting Standards, with the exception of International Financial Report Standard 16 "Leases" ("IFRS 16"), have no significant impact on the Group in 2019.

#### IFRS 16

The Group adopted the simple transition method allowed by the guidelines and applied the new leasing accounting policy only to contracts previously recognized as leases as at 31 December 2018. The Group does not reassess whether it has a lease if it has not been confirmed as a lease before. Therefore, the lease definition of the new lease accounting policy applies only to contracts signed or changed on or after 1 January 2019.

The Group measures the lease liability for the remaining lease payments based on the present value of the leaser's incremental borrowing rate on the first execution date, and adjusts the prepaid rent measurement right asset based on the amount equal to each lease liability.

For the operating lease contracts that existed prior to the first adoption of the new lease criteria, the Group differentiated the different lease methods according to the remaining lease terms :

- If the remaining lease term is longer than one year, the Group recognizes the lease liability and right-of-use assets based on the remaining lease payments and the incremental borrowing rate on 1 January 2019, and assumes that the new lease policy is adopted from the beginning of the lease period.
- If the remaining lease term is shorter than one year, the Group adopts a simplified method and does not recognize the right-of-use assets and lease liabilities, and has no significant impact on the financial statements.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

### 2.1 Basis of preparation (Continued)

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

##### IFRS 16 (Continued)

For leases that are low-value on the first execution date, the Group applies the exemption and does not recognize the right-of-use assets or lease liabilities and has no significant impact on the financial statements.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	1 January 2019
Lease liability recognised as at 1 January 2019	1,553
Including:	
Current lease liabilities	626
Non-current lease liabilities	927
Right-of-use assets recognised as at 1 January 2019	1,553
Including:	
Properties	1,553

At the date of initial application, weighted average lessee's incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position was 6.22%.

For the six months ended 30 June 2019, the accounting policies applicable to the Group's leases are as follows:

#### Leases

Lease refers to a contract in which the lessor transfers the right to use the assets to the lessee for a certain period of time to obtain the consideration.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

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

### 2.1 Basis of preparation (Continued)

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

##### IFRS 16 (Continued)

The Group as lessee

The Group recognises the right-of-use asset on the commencement date of the lease term and recognises the lease liability at the present value of the lease payments that have not been paid. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The variable rent determined based on a certain percentage of sales is not included in the lease payments and is recognized in profit or loss when incurred.

The Group's right-to-use assets include leased houses and buildings. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease beginning date, the initial direct costs, etc., and deducts the lease incentives received. If the Group can reasonably determine the ownership of the leased asset at the expiration of the lease term, it is depreciated over the remaining useful life of the leased asset; if it is not possible to reasonably determine whether the ownership of the leased asset can be obtained at the expiration of the lease term, the lease term and the remaining use of the leased asset, depreciation is made in the short period between the lease term and the remaining life of the leased asset. When the recoverable amount is lower than the carrying amount of the right-of-use asset, the Group reduces its carrying amount to the recoverable amount.

For short-term leases with a lease term of no more than 12 months and low-value asset leases with a lower value of individual assets, the Group chooses not to recognize the right-of-use assets and lease liabilities, and the relevant rental expenses are based on the straight-line method for each period of the lease term. It is included in the current profit and loss or related asset cost.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

### 2.1 Basis of preparation (Continued)

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

##### IFRS 16 (Continued)

The Group as lessor

A lease that transfers substantially all of the risks and rewards associated with the ownership of the leased asset is a finance lease. Other leases are operating leases.

(1) Operating lease

When the Group operates its own buildings, machinery and equipment and transportation vehicles, the rental income from operating leases is recognized on the straight-line basis over the lease term. The Group's variable rent determined based on a certain percentage of sales is included in rental income when it actually occurs.

(2) Finance lease

On the commencement date of the lease term, the Group recognizes the finance lease receivable from the finance lease and derecognises the relevant assets. The Group presents the finance lease receivables as long-term receivables, and the finance lease receivables received within one year (including one year) from the balance sheet date are listed as non-current assets due within one year.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

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

### 2.1 Basis of preparation (Continued)

#### 2.1.2 New standards and interpretations not yet adopted

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

		Effective for annual period beginning on or after
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 Contracts	1 January 2021

The Group anticipates that there will be no significant impact from these new and revised IFRS to the Group.

### 2.2 Critical accounting estimates and judgements

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. 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 are consistent with these policies applied in preparing the financial statements for the year ended at 31 December 2018.

## 3 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
<b>Fee and commission income</b>		
Trustee's remuneration	476,889	439,350
Others	177	2,700
<b>Total</b>	<b>477,066</b>	<b>442,050</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 4 INTEREST INCOME

	Six months ended 30 June	
	2019	2018
<b>Interest income from:</b>		
Cash and bank balance	2,719	3,612
Loans to customers	230,920	326,248
Investments classified as financial investments-amortized cost	2,171	7,992
Financial assets purchased under resale agreements	3,941	10,281
Contribution to Trust Industry Protection Fund (i)	3,950	3,607
<b>Total</b>	<b>243,701</b>	<b>351,740</b>

(i) The amount represents interest arising from contribution to the Trust Industry Protection Fund in connection with financing trust schemes.

## 5 NET CHANGES IN FAIR VALUE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT IN ASSOCIATES MEASURED AT FAIR VALUE

	Six months ended 30 June	
	2019	2018
<b>Net changes in fair value arising from:</b>		
Financial assets at fair value through profit or loss		
– Mutual funds	53,756	(1,815)
– Trust schemes	32,750	13,576
– Unlisted companies	18,090	1,073
– Listed shares	5,478	(580)
– Asset management products	(3,090)	(3,203)
	106,984	9,051
Investment in associates (Note 16(c))	26,878	–
<b>Total</b>	<b>133,862</b>	<b>9,051</b>



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 6 INVESTMENT INCOME/(LOSS)

	Six months ended 30 June	
	2019	2018
<b>Dividends income from:</b>		
Financial assets at fair value through profit or loss	–	5,688
<b>Net realised gains or losses from:</b>		
Financial assets at fair value through profit or loss	3,072	(23,712)
Total	3,072	(18,024)

## 7 NET GAINS ON DISPOSAL OF ASSOCIATES HELD BY CONSOLIDATED STRUCTURED ENTITIES

	Six months ended 30 June	
	2019	2018
Shanghai Ruize Investment Co., Ltd. ("Shanghai Ruize")	–	155,357
Tailong Health Industry Investment Company Limited ("Tailong Health")	–	5,494
Total	–	160,851

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 8 INTEREST EXPENSE

	Six months ended 30 June	
	2019	2018
Interest for borrowings from China Trust Protection Fund Co., Ltd.	15,787	31,597
Interest for placement from banks	1	101
Third-party beneficiaries' interests (i)	69,793	12,080
<b>Total</b>	<b>85,581</b>	<b>43,778</b>

- (i) These interests represent expected returns attributable to third-party beneficiaries of the consolidated financing trust schemes, after offsetting the impairment losses attributable to third-party beneficiaries. Third-party beneficiaries' interests in the consolidated trust schemes are accounted for as net assets attributable to other beneficiaries of consolidated structured entities in the interim consolidated condensed statement of financial position (Note 33).

## 9 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Six months ended 30 June	
	2019	2018
Salaries and bonuses	47,733	62,301
Pension costs (defined contribution plans)	3,349	2,847
Housing funds	3,165	1,961
Labour union fee and staff education expenses	3,488	180
Other social security and benefit costs	6,922	10,313
<b>Total</b>	<b>64,657</b>	<b>77,602</b>





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

Name	Six months ended 30 June 2019				Total
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
<b>Executive Director</b>					
Wan Zhong (i)	-	268	956	19	1,243
Yue Zengguang (ii)	-	267	390	19	676
<b>Non-Executive Directors (v)</b>					
Xiao Hua	-	-	-	-	-
Jin Tongshui	-	-	-	-	-
<b>Independent Non-Executive Directors</b>					
Yen Huai-chiang	100	-	-	-	100
Ding Huiping	100	-	-	-	100
Meng Rujing	100	-	-	-	100
<b>Supervisors</b>					
Wu Chen (vi)	-	-	-	-	-
Guo Shougui (iii) (vi)	-	-	-	-	-
Chen Yong (vi)	-	-	-	-	-
Guan Wei (vi)	-	-	-	-	-
Hou Zhenkai (vi)	-	-	-	-	-
Wang Zhimei (iv) (vi)	-	-	-	-	-
Tian Zhiguo (vii)	-	134	691	19	844
Li Aiping (vii)	-	203	206	19	428
Zuo Hui (vii)	-	201	260	19	480
<b>Total</b>	<b>300</b>	<b>1,073</b>	<b>2,503</b>	<b>95</b>	<b>3,971</b>

- (i) Wan Zhong has been appointed as the chairman of the Company by the Board in July 2018, and his qualification to act as the chairman was approved by the Shandong Office of CBIRC on 9 January 2019. Wan Zhong is also an employee of the Company and his emolument disclosed above includes all the emoluments he receives from the Company.
- (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 includes all the emoluments he receives from the Company.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

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

- (iii) Guo Shougui was elected supervisor effective in July 2018.
- (iv) Wang Zhimei was elected supervisor effective in July 2018.
- (v) These Non-executive Directors of the Company did not receive any emoluments from the Company.
- (vi) The non-employee Supervisors of the Company did not receive any emoluments from the Company.
- (vii) These Supervisors are the employees of the Company and their emoluments disclosed above includes all the emoluments they receive from the Company.

Discretionary bonuses are based on the business performance.

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



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

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

- (i) Wang Yingli ceased to be executive director effective in July 2018.
- (ii) Yang Gongmin ceased to be supervisor effective in July 2018.
- (iii) Wang Yuepu ceased to be supervisor effective in July 2018.

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

### (b) Five highest paid individuals

For the six months ended 30 June 2019, the five highest paid individuals of the Group includes 1 director, whose emolument has been disclosed above (for the six months ended 30 June 2018: one supervisor).

The emoluments of the five highest paid individuals for the six months ended 30 June 2019 and 2018 are as follows:

	Six months ended 30 June	
	2019	2018
Salaries and allowances and benefits	4,726	5,086
Discretionary bonuses	10,733	10,241
Contribution to pension schemes	95	86
Total	15,554	15,413

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of Individuals	
	Six months ended 30 June	
	2019	2018
RMB500,001 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	1	–
RMB1,500,001 – RMB2,000,000	1	3
RMB2,000,001 – RMB2,500,000	–	1
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	–	–
RMB4,500,001 – RMB5,000,000	–	–
RMB5,000,001 – RMB5,500,000	1	–
RMB5,500,001 – RMB6,000,000	–	–
Above RMB6,000,000	–	1
<b>Total</b>	<b>5</b>	<b>5</b>

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.

## 11 LOAN IMPAIRMENT CHARGES AND OTHER CREDIT RISK PROVISION

	Six months ended 30 June	
	2019	2018
Loans to customers	246,026	255,385
Financial investments-amortized cost	146	4,924
Trustee's remuneration receivable	3,902	11,624
Others	26,158	5,339
<b>Total</b>	<b>276,232</b>	<b>277,272</b>



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 12 IMPAIRMENT LOSSES ON OTHER ASSETS

	Six months ended 30 June	
	2019	2018
Art investment	2,712	15,439
Investments accounted for using the equity method	2,333	–
<b>Total</b>	<b>5,045</b>	15,439

## 13 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
Current income tax	154,905	126,678
Deferred income tax (Note 20)	(52,044)	(7,369)
<b>Total</b>	<b>102,861</b>	119,309

Current income tax is calculated based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the respective years.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Six months ended 30 June	
	2019	2018
Profit before income tax	431,143	545,700
Tax calculated at a tax rate of 25%	107,786	136,425
Tax effect arising from income not subject to tax (i)	(13,653)	(31,829)
Tax effect of expenses that are not deductible for tax purposes	8,728	14,713
<b>Income tax expense</b>	<b>102,861</b>	119,309

(i) The income not subject to tax mainly represents the share of profit from investments accounted for using equity method.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 14 BASIC AND DILUTED EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the periods.

	Six months ended 30 June	
	2019	2018 (Restated)
Net profit attributable to shareholders of the Company	328,282	426,391
Weighted average number of ordinary shares in issue	4,658,850	4,658,850
Basic earnings per share	0.07	0.09

### (b) Diluted earnings per share

For the six months ended 30 June 2019 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.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Equipment	Furniture and others	Construction in progress	Total
<b>Cost</b>						
At 1 January 2019	138,374	3,847	10,871	3,409	15,784	172,285
Additions	–	–	27	3	294	324
Disposals	–	(216)	(262)	–	–	(478)
At 30 June 2019	138,374	3,631	10,636	3,412	16,078	172,131
<b>Accumulated depreciation</b>						
At 1 January 2019	(30,603)	(3,349)	(7,430)	(775)	–	(42,157)
Charge for the period	(2,870)	(67)	(810)	(186)	–	(3,933)
Disposals	–	209	65	–	–	274
At 30 June 2019	(33,473)	(3,207)	(8,175)	(961)	–	(45,816)
<b>Net book value</b>						
At 30 June 2019	104,901	424	2,461	2,451	16,078	126,315
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
At 1 January 2018	(24,864)	(3,097)	(6,797)	(508)	–	(35,266)
Charge for the period	(5,739)	(252)	(1,625)	(267)	–	(7,883)
Disposals	–	–	992	–	–	992
At 31 December 2018	(30,603)	(3,349)	(7,430)	(775)	–	(42,157)
<b>Net book value</b>						
At 31 December 2018	107,771	498	3,441	2,634	15,784	130,128

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 16 INVESTMENTS IN ASSOCIATES

- (a) The amounts recognised in the interim condensed consolidated financial information are as follows:

	30 June 2019	31 December 2018
<b>Associates of the Company, measured at equity accounting</b>		
Fullgoal Fund Management Co., Ltd. ("Fullgoal") (i)	589,542	565,995
Dezhou Bank Co., Ltd. ("Dezhou Bank") (ii)	96,367	150,010
First-Trust Fund Management Co., Ltd. ("First-trust FMC") (ii)	54,170	68,833
Shandong HOWO Auto Finance Co., Ltd. (ii)	189,699	192,474
Taishan Property & Casualty Insurance Co., Ltd. (ii)	215,335	207,147
Others (ii)	53,250	61,760
<b>Gross amount</b>	<b>1,198,363</b>	1,246,219
Less: Impairment allowance	–	–
<b>Associates of the Company, net</b>	<b>1,198,363</b>	1,246,219
<b>Associates of the Company's certain consolidated structured entities, measured at equity accounting</b>		
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") (i)	628,266	621,044
Tailong Health Industry Investment Company Limited ("Tailong Health") (ii)	52,100	52,100
Others (ii)	33,392	33,391
<b>Gross amount</b>	<b>713,758</b>	706,535
Less: Impairment allowance	(10,000)	(7,667)
<b>Associates of the Company's certain consolidated structured entities, net</b>	<b>703,758</b>	698,868





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

- (a) The amounts recognised in the interim condensed consolidated financial information are as follows: (Continued)

	30 June 2019	31 December 2018
<b>Associates indirectly held by the Group through trust schemes, measured at fair value:</b>		
Shenzhen Qianhai Run Xin Investment Co., Ltd.	20,868	18,900
Henan Liang Ding Property Co., Ltd.	116,441	94,650
Liaocheng Liang Hong Property Co., Ltd.	32,304	50,144
Cangzhou Liang Sheng Property Co., Ltd.	97,814	–
Tianjin Liang Xin Property Co., Ltd.	85,641	–
Tianjin Liang Shun Property Co., Ltd.	67,799	–
Tengzhou Haide Gongyuan Property Co., Ltd.	66,145	–
<b>Gross amount</b>	<b>487,012</b>	163,694
<b>Total</b>	<b>2,389,133</b>	2,108,781

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

### (b) Investment in associates, measured at equity accounting

Set out below are the associates of the Group as at 30 June 2019 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.	Shanghai, China	16.68%	Equity
Shandong AMC	Shandong, China	7.24%	Equity

The Group has one seat on the board of Fullgoal Fund Management Co., Ltd., and Shandong AMC respectively, and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over these entities.

### (i) Summarised financial information of significant associates

#### Fullgoal Fund Management Co., Ltd.

Summarised balance sheet

	30 June 2019	31 December 2018
Current assets	4,121,179	4,029,527
Non-current assets	681,888	653,770
<b>Total assets</b>	<b>4,803,067</b>	4,683,297
Current liabilities	(604,950)	(930,333)
Non-current liabilities	(662,633)	(358,691)
<b>Total liabilities</b>	<b>(1,267,583)</b>	(1,289,024)
<b>Net assets</b>	<b>3,535,484</b>	3,394,273



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

### (b) Investment in associates, measured at equity accounting (Continued)

#### (i) Summarised financial information of significant associates (Continued)

Fullgoal Fund Management Co., Ltd. (Continued)

Summarised statement of comprehensive income

	Six months ended 30 June	
	2019	2018
Revenue	1,297,628	1,185,347
Profit from continuing operations	524,126	462,144
Post-tax profit from continuing operations	404,819	350,305
Other comprehensive income	(3,608)	2,433
<b>Total comprehensive income</b>	<b>401,211</b>	<b>352,738</b>
<b>Dividends received/receivable from the associate</b>	<b>43,355</b>	<b>25,013</b>

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 information

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

	Six months ended 30 June	
	2019	2018
<b>Net assets at the beginning of the period</b>	<b>3,394,273</b>	<b>2,837,639</b>
Profit for the period	404,819	350,305
Dividend distribution	(260,000)	(150,000)
Other comprehensive income	(3,608)	2,433
<b>Net assets at the end of the period</b>	<b>3,535,484</b>	<b>3,040,377</b>
Percentage of the Group's interests in the associate	16.68%	16.68%
<b>Carrying amount of the Group's interest in the associate</b>	<b>589,542</b>	<b>506,983</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

### (b) Investment in associates, measured at equity accounting (Continued)

#### (i) Summarised financial information of significant associates (Continued)

##### Shandong AMC

Summarised balance sheet

	30 June 2019	31 December 2018
Current assets	<b>20,152,533</b>	19,568,316
Non-current assets	<b>22,195,747</b>	20,946,094
<b>Total assets</b>	<b>42,348,280</b>	40,514,410
Current liabilities	<b>(5,359,843)</b>	(7,141,730)
Non-current liabilities	<b>(24,978,046)</b>	(21,524,362)
<b>Total liabilities</b>	<b>(30,337,889)</b>	(28,666,092)
<b>Net assets</b>	<b>12,010,391</b>	11,848,318
Including: Net assets attributable to Type C shareholders	<b>8,529,027</b>	8,429,220

Summarised statement of comprehensive income

	Six months ended 30 June	
	2019	2018
Revenue	<b>946,806</b>	936,492
Profit from continuing operations	<b>250,665</b>	413,424
Post-tax profit from continuing operations	<b>162,074</b>	269,243
Including: Post-tax profit attributable to Type C shareholders	<b>99,807</b>	205,509
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>162,074</b>	269,243
<b>Dividends received/receivable from the associate</b>	-	30,922



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

### (b) Investment in associates, measured at equity accounting (Continued)

#### (i) Summarised financial information of significant associates (Continued)

##### Shandong AMC (Continued)

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

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

	Six months ended 30 June	
	2019	2018
<b>Net assets attributable to Type C shareholders at the beginning of the period</b>	<b>8,429,220</b>	8,320,762
Post-tax profit attributable to Type C shareholders	<b>99,807</b>	205,509
Profit distribution	–	(483,700)
<b>Closing net assets attributable to Type C shareholders</b>	<b>8,529,027</b>	8,042,571
Percentage of the Group's interests in the associate	<b>7.24%</b>	7.24%
Group's share in the associate	<b>617,161</b>	581,961
Goodwill	<b>11,105</b>	11,105
<b>Carrying amount of the Group's interest in the associate</b>	<b>628,266</b>	593,066

*Note:* The Group invests in the Type C shares of Shandong AMC. Shandong AMC's profit distribution is not proportional to each shareholder's ownership percentage. For type A and B shareholders, if Shandong AMC decides to distribute its profit, they are entitled only to a fixed rate of return. A certain portion of the remaining distributable profit will be further distributed to Type C shareholders. Thus, only movement of net assets attributable to Type C shareholders is disclosed.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

### (b) Investment in associates, measured at equity accounting (Continued)

#### (ii) Reconciliation of summarised financial information of insignificant associates

	Six months ended 30 June	
	2019	2018
<b>Carrying amount at the beginning of the period</b>	<b>758,048</b>	810,128
Disposal during the period	–	(71,543)
Share of net (loss)/profit for the period	<b>(12,893)</b>	730
Other comprehensive income for the period	<b>378</b>	3,102
Impairment allowance	<b>(2,333)</b>	–
Others (b)	<b>(58,887)</b>	(33,880)
<b>Carrying amount at the end of the period</b>	<b>684,313</b>	708,537

- (a) 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.
- (b) The amount reflected the dilution of the Company's share in the associates because of the capital contribution from other investors.

### (c) Investments in associates, measured at fair value

The Group holds investments in those associates indirectly through consolidated trust schemes. The Group elected to measure them at fair value through profit and loss in accordance with IFRS 9.

	Six months ended 30 June	
	2019	2018
<b>Carrying amount at the beginning of the period</b>	<b>163,694</b>	–
Acquisition during the period	<b>296,440</b>	–
Disposal during the period	–	–
Fair value changes (Note 5)	<b>26,878</b>	–
<b>Carrying amount at the end of the period</b>	<b>487,012</b>	–



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 17 LOANS TO CUSTOMERS

### (a) Analysis of loans to customers:

	30 June 2019	31 December 2018
Corporate loans	<b>7,339,541</b>	7,683,391
Interest receivable	<b>61,458</b>	75,340
Less: ECL allowance – Loans	<b>(846,984)</b>	(600,424)
ECL allowance – Interest receivable	<b>(1,020)</b>	(1,554)
<b>Loans to customers, net</b>	<b>6,552,995</b>	7,156,753
Presented as:		
Non-current assets	<b>5,254,303</b>	3,249,109
Current assets	<b>1,298,692</b>	3,907,644
<b>Loans to customers, net</b>	<b>6,552,995</b>	7,156,753

### (b) Movements of ECL allowance – Loans

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Loss allowance as at 1 January 2019</b>	<b>108,968</b>	<b>21,137</b>	<b>470,319</b>	<b>600,424</b>
Provision for impairment	<b>27,608</b>	–	<b>267,437</b>	<b>295,045</b>
Reversal of impairment allowances	<b>(23,857)</b>	<b>(32)</b>	–	<b>(23,889)</b>
Transfers:	–	<b>(20,860)</b>	<b>20,860</b>	–
Transfer from Stage 2 to Stage 3	–	<b>(20,860)</b>	<b>20,860</b>	–
ECL, PD and LGD changes (i)	<b>(24,400)</b>	<b>(196)</b>	–	<b>(24,596)</b>
<b>Loss allowance as at 30 June 2019</b>	<b>88,319</b>	<b>49</b>	<b>758,616</b>	<b>846,984</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

## 17 LOANS TO CUSTOMERS (CONTINUED)

### (b) Movements of ECL allowance – Loans (Continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Loss allowance as at 1 January 2018</b>	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)
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 3 to Stage 1	79,980	–	(79,980)	–
Other transfers	(5)	–	11,404	11,399
ECL, PD and LGD changes (i)	(17,371)	(5,818)	–	(23,189)
<b>Loss allowance as at 31 December 2018</b>	108,968	21,137	470,319	600,424

(i) This item includes PD, EAD, LGD change due to routine updates to model parameters.

### (c) Movement of corporate loans

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2019</b>	5,631,500	676,500	1,375,391	7,683,391
Additions	1,364,000	–	–	1,364,000
Repayments	(1,703,600)	(4,250)	–	(1,707,850)
Transfers:	–	(666,000)	666,000	–
Transfer from Stage 2 to Stage 3	–	(666,000)	666,000	–
<b>Balance as at 30 June 2019</b>	5,291,900	6,250	2,041,391	7,339,541





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 17 LOANS TO CUSTOMERS (CONTINUED)

### (c) Movement of corporate loans (Continued)

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2018</b>	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)
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 3 to Stage 1	100,000	–	(100,000)	–
Other transfers	27,400	–	14,200	41,600
<b>Balance as at 31 December 2018</b>	5,631,500	676,500	1,375,391	7,683,391

## 18 INVESTMENT PROPERTIES

The Group measured investment properties at cost method.

	Building
<b>Cost</b>	
At 1 January 2019	–
Additions	155,216
At 30 June 2019	155,216
<b>Accumulated depreciation</b>	
At 1 January 2019	–
Charge for the period	–
At 30 June 2019	–
<b>Net book value</b>	
At 30 June 2019	155,216

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 19 ADVANCE PAYMENTS

	30 June 2019	31 December 2018
Prepayment for investment property	–	152,457
Prepayment for construction projects	526	342
Other	11,045	8,191
<b>Total</b>	<b>11,571</b>	<b>160,990</b>

## 20 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 2019	Charged to profit or loss	At 30 June 2019
Deferred income tax assets:			
Impairment allowances for assets	100,092	97,336	197,428
Staff salary and welfare payable	20,359	3,059	23,418
Others	630	(630)	–
Subtotal	121,081	99,765	220,846
Deferred income tax liabilities:			
Fair value changes of financial assets at fair value through profit or loss	3,994	(33,697)	(29,703)
Others	(26,819)	(14,024)	(40,843)
Subtotal	(22,825)	(47,721)	(70,546)
Net deferred income tax assets	98,256	52,044	150,300



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 20 DEFERRED INCOME TAXES (CONTINUED)

	At 1 January 2018	Charged to profit or loss	At 31 December 2018
Deferred income tax assets:			
Impairment allowances for assets	78,496	21,596	100,092
Staff salary and welfare payable	20,506	(147)	20,359
Others	544	86	630
Sub-total	99,546	21,535	121,081
Deferred income tax liabilities:			
Fair value changes of financial assets at fair value through profit or loss	(8,177)	12,171	3,994
Fair value changes of available-for-sale financial assets	(6,088)	6,088	–
Others	–	(26,819)	(26,819)
Sub-total	(14,265)	(8,560)	(22,825)
Net deferred income tax assets	85,281	12,975	98,256

## 21 OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
Investment in art work	33,428	45,930
Contribution to Trust Industry Protection Fund for trust schemes	333,224	316,639
Total	366,652	362,569

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 22 CASH AND BANK BALANCE

### (a) Cash and bank balance

	30 June 2019	31 December 2018
Cash in hand	14	45
Cash at banks	459,585	1,081,209
<b>Total</b>	<b>459,599</b>	<b>1,081,254</b>

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

	30 June 2019	31 December 2018
Cash in hand	14	45
Cash at banks	459,585	1,081,209
<b>Total</b>	<b>459,599</b>	<b>1,081,254</b>

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019	31 December 2018
Equity investments		
Listed shares	74,666	42,482
Unlisted entities	362,603	556,314
Asset management products (i)	420,446	168,603
Mutual funds	770,854	406,505
Investments in trust schemes	273,533	312,858
Investments in Trust Industry Protection Fund (ii)	95,701	92,109
<b>Total</b>	<b>1,997,803</b>	<b>1,578,871</b>
Presented as:		
Non-current assets	1,152,283	1,129,884
Current assets	845,520	448,987
<b>Financial assets at fair value through profit or loss, net</b>	<b>1,997,803</b>	<b>1,578,871</b>



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

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

- (i) The amounts mainly represent the Group's investments in certain asset management products managed by third party financial institutions such as banks and security companies in the PRC.
- (ii) In accordance with the notice "Administrative rule of Trust Industry Protection Fund" jointly issued by the CBRC and Ministry of Finance of the PRC ("MOF") on 10 December 2014 (YJF[2014]No. 50) and relevant requirements in the notice issued by the CBRC on 25 February 2015 (YJBF[2015]No. 32) concerning Detailed Procedures of Collection and Administration of Trust Industry Protection Fund, trust companies in China are required to make contributions to the Trust Industry Protection Fund ("the Fund") that was established and managed by China Trust Protection Fund Co., Ltd., a company established jointly by China Trust Association and certain trust companies in China. The amount of contributions to the Fund consists of the following components:
- 1% of the trust company's net assets at the end of proceeding financial year as each trust company's own contribution;
  - 1% of total proceeds received from issuance of each trust product. For financing trust schemes, the Fund is subscribed by the borrower through the trust company; For trust products which invest in standardized financial products, the Fund is contributed by the trust company;
  - For non-cash asset related trust products, the Fund is contributed by the trust company at 5% of total trustee's remuneration;
  - The Fund can only be utilised when the trust company has entered into restructuring, bankruptcy, liquidation or liquidity crisis due to continuous operating losses. The Fund can be invested in bank deposits, inter-bank market, government bonds, PBOC notes, financial bonds, money market funds etc;
  - The Group has classified its own contribution to the Fund as financial assets at fair value through profit or loss as at 30 June 2019.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 24 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	30 June 2019	31 December 2018
Government bonds	<b>713,800</b>	95,100

## 25 OTHER CURRENT ASSETS

	30 June 2019	31 December 2018
Contribution to Trust Industry Protection Fund on behalf of trust schemes (i)	<b>280,838</b>	243,640
Settlement deposits with securities firms	<b>171</b>	99,010
Input VAT to be deducted	–	302
Others, net	<b>46,190</b>	117,097
Others, gross	<b>138,085</b>	179,108
Less: ECL Allowance	<b>(91,895)</b>	(62,011)
Total	<b>327,199</b>	460,049

- (i) The amount represents the subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 23.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 26 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Company issued are fully paid common shares. The par value per share is RMB1. The Company's shares are as follows:

	30 June 2019	31 December 2018
Number of shares authorized and issued (i)	4,658,850	2,588,250
Share capital	4,658,850	2,588,250

- (i) Pursuant to the resolution of 2018 Special 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. The Company completed the conversion on 8 January 2019 and the amount of share capital was increased to RMB4,658,850,000.

Generally, transactions of the following nature are recorded in the capital reserve:

- Share premium arising from the issuance of share capital at prices in excess of their par value;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

Capital reserve can be utilized for increasing share capital as approved by the shareholders.

The Company issued shares at share premium. The share premium was recorded in the capital reserve after deducting share issue cost which mainly include underwriting fees and professional fees.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 26 SHARE CAPITAL AND CAPITAL RESERVE (CONTINUED)

As of 30 June 2019, the Group's capital reserve is shown as follows:

	30 June 2019	31 December 2018
Share premium	153,070	2,223,670
Others	(46,797)	7,469
Total	<b>106,273</b>	2,231,139

## 27 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Statutory surplus reserve (i)	Statutory general reserve (ii)
Balance at 1 January 2019	767,319	756,073
Appropriation	-	-
Balance at 30 June 2019	<b>767,319</b>	756,073
Balance at 1 January 2018	688,876	718,772
Appropriation	78,443	37,301
Balance at 31 December 2018	<b>767,319</b>	756,073

### (i) Statutory surplus reserve

Pursuant to the relevant PRC regulations, the Company is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of registered capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Company's ordinary share capital. The amount of statutory surplus reserve used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital.





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 27 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE (CONTINUED)

### (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.

## 28 OTHER RESERVES

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2019	(1,301)	–	(1,301)
Share of other comprehensive income of investments accounted for using the equity method	723	–	723
Balance at 30 June 2019	(578)	–	(578)
Balance at 1 January 2018 (Restated)	(7,351)	–	(7,351)
Share of other comprehensive income of investments accounted for using the equity method	6,050	–	6,050
Balance at 31 December 2018	(1,301)	–	(1,301)

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FOR SIX MONTHS ENDED 30 JUNE 2019  
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## 29 DIVIDENDS

	Six months ended 30 June	
	2019	2018
Dividend declared during the period	<b>377,367</b>	447,767

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 which determined in accordance with China Accountant Standards and IFRS.

## 30 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 the Company's consolidated structured entities.

## 31 SHORT-TERM BORROWINGS

	30 June 2019	31 December 2018
Borrowings from China Trust Protection Fund Co., Ltd.	<b>420,000</b>	450,000



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 32 OTHER CURRENT LIABILITIES

	30 June 2019	31 December 2018
Payable to National Council for Social Security Fund (i)	227,452	227,452
Advancement from borrowers (ii)	388,985	283,692
VAT and surtax payable for trust schemes (iii)	88,300	188,882
Deferred trustee's remuneration fee income	71,594	66,485
Other tax payable	24,008	46,214
Others	39,670	12,283
<b>Total</b>	<b>840,009</b>	<b>825,008</b>

- (i) The amounts represents proceeds from disposal of the Company's shares attributable to National Council for Social Security Fund upon IPO.
- (ii) The amounts represents the subscription amounts collected by the Group 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.

## 33 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 Group 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 Group receives remuneration as the trustee of these trust schemes, and is entitled to investment return from the trust schemes in which the Group has made direct investment. The Group considers its variable returns (being the trustee's remunerations and investment return if any, on an aggregate basis) from its involvement with these structured entities are insignificant and hence it does not consolidate these structured entities.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
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## 33 STRUCTURED ENTITIES (CONTINUED)

### (a) Structured entities that are not consolidated (Continued)

#### (i) *Unconsolidated structured entities managed by the Group*

As at 30 June 2019, the volume of unconsolidated trust schemes established and managed by the Group amounted to RMB238,191 million (31 December 2018: RMB223,138 million). The Group's maximum exposure to these unconsolidated structured entities is the trustee's remuneration receivables, which amount to RMB335,159 thousand at 30 June 2019 (31 December 2018: RMB251,825 thousand).

During the six months ended 30 June 2019, the Group did not provide financial or other support to these structured entities (the six months ended 30 June 2018: nil).

#### (ii) *Unconsolidated structured entities invested by the Group*

As at 30 June 2019, the Group invested in a number of unconsolidated trust schemes established and managed by the Group or other structured entities managed by third parties. These investments in unconsolidated structured entities are classified as financial assets at fair value through profit or loss or financial investments-amortized cost.

During the six months ended 30 June 2019, the Group did not provide financial or other support to these structured entities (the six months ended 30 June 2018: nil).

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



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

## 33 STRUCTURED ENTITIES (CONTINUED)

### (a) Structured entities that are not consolidated (Continued)

#### (ii) Unconsolidated structured entities invested by the Group (Continued)

	Carrying value	Maximum exposure to loss	Total volume of structured entities
At 30 June 2019			
<b>Financial assets at fair value through profit or loss</b>			
Unconsolidated structured entities managed by the Group			
– Investments in trust schemes managed by the Group	501,197	501,197	5,057,771
Unconsolidated structured entities managed by the third parties			
– Mutual funds	770,854	770,854	Note 1
– Asset management products	420,446	420,446	Note 1
– Investment in Trust Industry Protection Fund	95,701	95,701	Note 1
	<b>1,287,001</b>	<b>1,287,001</b>	
<b>Financial investments-amortized cost</b>			
– Trust schemes established and managed by the Group	67,502	67,502	1,003,033
At 31 December 2018			
<b>Financial assets at fair value through profit or loss</b>			
Unconsolidated structured entities managed by the Group			
– Investments in trust schemes managed by the Group	869,172	869,172	5,116,875
Unconsolidated structured entities managed by the third parties			
– Mutual funds	406,505	406,505	Note 1
– Asset management products	168,603	168,603	Note 1
– Investment in Trust Industry Protection Fund	92,109	92,109	Note 1
	667,217	667,217	
<b>Financial investments-amortized cost</b>			
– Trust schemes established and managed by the Group	121,475	121,475	722,724

Note 1: Total volume of these asset management products, trust schemes and Trust Industry Protection Fund is not available in the public information.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 33 STRUCTURED ENTITIES (CONTINUED)

### (b) Consolidated structured entities

Consolidated structured entities include trust schemes established and managed by the Group in which the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests that it holds in the structured entities. The underlying assets of these consolidated structured entities are mainly included in the balances of loans to customers, investments in associates and financial assets at fair value through profit or loss.

At 30 June, 2019, the number of consolidated trust schemes established and managed by the Company were 50 (31 December 2018: 51) and total volume of consolidated trust schemes amounted to RMB8,425,054 thousand (31 December 2018: RMB8,784,368 thousand).

The Group has no contractual obligation to provide liquidity or other support to any trust that may not be able to collect all payments from the counterparty according to its contract before the trust expiration date (the "troubled trusts"). In the past, the Group 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 meet the criteria of consolidated structured entities, the Group then consolidates these troubled trusts. As at 30 June 2019, total assets of such troubled trusts amounted to RMB1,151,989 thousand (31 December 2018: RMB1,148,303 thousand), and impairment allowance have been made in the amount of RMB467,971 thousand (31 December 2018: RMB388,763 thousand).



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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## 34 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitment

	30 June 2019	31 December 2018
Contracted but not yet incurred	9,991	10,175

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 commitment shall be RMB100 million.

### (b) Operating leasing commitment

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

	30 June 2019	31 December 2018
Within one year	N/A	1,345
Between one year and five years	N/A	1,100
Total	N/A	2,445

From 1 January 2019, the future minimum lease payment were discounted and shown as lease liability in the statement of position.

### (c) Legal proceedings

The Group believes the legal proceedings that remains outstanding as at 30 June 2019 which the Group and the Company are interested party would not have a material impact on its financial position or operations.

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## 35 RELATED PARTY TRANSACTIONS

The Company is controlled by Lucion Group, which aggregately owns 51.95% of the shares of the Company at 30 June 2019. Lucion Group is further controlled by Shandong State-owned Assets Supervision and Administration Commission. CNPC Assets Management Co., Ltd. ("CNPC AMC"), holds 18.75% of the Company's shares and has significant influence over the Company.

The Company's directors were of the view that Lucion Group, CNPC AMC and their subsidiaries were considered as related parties of the Group. Certain trust schemes were also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 35(d) below. The Group's transaction with related parties are conducted under the ordinary course of business.

### (a) Transactions with trust schemes considered to be related parties of the Group

During the six months ended 30 June 2019, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent ("Lucion Group").

	30 June 2019	31 December 2018
Number of trust schemes controlled by the Group (Note 33(b))	50	51
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	18	21

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

	30 June 2019	31 December 2018
Total entrusted assets of trust schemes controlled by Lucion Group	4,366,385	3,679,903

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

	Six months ended 30 June	
	2019	2018
Fee and commission income	5,969	5,044





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

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

During the six months ended 30 June 2019, 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 statement of financial position (Note 30):

	30 June 2019	31 December 2018
Number of trust schemes where the related parties act as trustors	7	7
Interests of related parties in these consolidated trust schemes	<b>536,482</b>	130,530

Investment return/(loss) have been accounted for as interest expense (Note 8) and net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value in the statement of comprehensive income:

	Six months ended 30 June	
	2019	2018
Interest expense	<b>(9,196)</b>	(40,606)
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	<b>775</b>	(291)

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### (ii) Related parties as trustors of unconsolidated trust schemes of the Group

	30 June 2019	31 December 2018
Number of unconsolidated trust schemes where related parties acts as trustors	<b>28</b>	43
Assets entrusted by related parties	<b>3,305,217</b>	3,637,494
Total entrusted assets of these unconsolidated trust schemes	<b>4,632,484</b>	9,639,127

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

	Six months ended 30 June	
	2019	2018
Fee and commission income	<b>10,875</b>	40,754



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) Related parties financed by trust schemes

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

	30 June 2019	31 December 2018
Number of unconsolidated trust schemes which provide financing to related parties	11	14
Amount financed	5,059,417	4,352,876
Total entrusted assets of these unconsolidated trust schemes	5,473,422	4,964,296

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

	Six months ended 30 June	
	2019	2018
Fee and commission income	12,208	8,209

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
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## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, including directors, supervisors, and senior management personnel.

#### (i) Key management compensation

The compensation paid to key management personnel is shown below:

	Six months ended 30 June	
	2019	2018
Salaries and allowances	2,699	3,684
Pension	190	173
Other social security obligations	303	332
<b>Total</b>	<b>3,192</b>	<b>4,189</b>

The compensation payable to key management personnel is shown below:

	30 June 2019	31 December 2018
Discretionary bonuses payable	7,900	12,458



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	30 June 2019	31 December 2018
Key management's personal investments in trust schemes	41,321	19,698
Total entrusted assets of these trust schemes	13,238,498	7,269,831

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

	Six months ended 30 June	
	2019	2018
Fee and commission income	22,165	3,479

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 35 RELATED PARTY TRANSACTIONS (CONTINUED)

### (e) Other related parties transactions

#### *Significant transactions with related parties*

During the six months ended 30 June 2019, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2019	2018
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	898	1,207
Advertising costs paid to Shandong Lu Xin Film Co., Ltd.	63	–
Properties management expenses paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	–	4,248
Restaurant management fee paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	–	34
System maintenance expenses paid to Luxin Technology Co., Ltd.	4,539	2,774
Rental income from Shandong Luxin Hengsheng Property Management Co., Ltd.	55	69

### (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.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 36 SEGMENT ANALYSIS

### (a) Operating segments

	Six months ended 30 June 2019			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	477,066	–	477,066
Interest income	243,219	482	–	243,701
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	133,862	–	–	133,862
Investment income	3,072	–	–	3,072
Other operating income	304	10	–	314
<b>Total operating income</b>	<b>380,457</b>	<b>477,558</b>	<b>–</b>	<b>858,015</b>
Interest expenses	(85,581)	–	–	(85,581)
Staff costs (including directors and supervisors' emoluments)	(2,225)	(62,432)	–	(64,657)
Operating lease payments	(259)	(3,657)	–	(3,916)
Depreciation and amortisation	(331)	(4,673)	–	(5,004)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(11,321)	–	–	(11,321)
Tax and surcharges	(696)	(4,404)	–	(5,100)
Other operating expenses	(1,065)	(29,888)	–	(30,953)
Auditor's remuneration	(896)	–	–	(896)
Loan impairment charges and other credit risk provision	(276,232)	–	–	(276,232)
Impairment losses on financial assets	(5,045)	–	–	(5,045)
<b>Total operating expenses</b>	<b>(383,651)</b>	<b>(105,054)</b>	<b>–</b>	<b>(488,705)</b>
Share of profit from investments accounted for using the equity method	61,833	–	–	61,833
<b>Operating profit before income tax</b>	<b>58,639</b>	<b>372,504</b>	<b>–</b>	<b>431,143</b>

	30 June 2019			
	Proprietary business	Trust business	Unallocated	Total
<b>Segment assets</b>	<b>12,156,984</b>	<b>1,467,702</b>	<b>34,801</b>	<b>13,659,487</b>
<b>Segment liabilities</b>	<b>4,136,735</b>	<b>71,595</b>	<b>13,093</b>	<b>4,221,423</b>





# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 37 SUBSEQUENT EVENTS

The Group has no material events that requires additional disclosure after 30 June 2019.

## 38 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 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.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
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## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.1 Maximum exposure to credit risk – Financial instruments subject to impairment

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

	30 June 2019		
	Gross carrying amount	Loss allowance	Carrying amount
Cash and bank balance (Stage 1)	459,599	–	459,599
Financial assets purchased under resale agreements (Stage 1)	713,800	–	713,800
Loans to customers	7,400,999	(848,004)	6,552,995
Stage 1	5,353,163	(89,336)	5,263,827
Stage 2	6,445	(51)	6,394
Stage 3	2,041,391	(758,617)	1,282,774
Financial investments-amortized cost	82,091	(14,589)	67,502
Stage 1	67,794	(292)	67,502
Stage 2	–	–	–
Stage 3	14,297	(14,297)	–
Other financial assets-amortized cost	1,091,199	(106,690)	984,509
Stage 1	990,314	(5,805)	984,509
Stage 2	–	–	–
Stage 3	100,885	(100,885)	–
<b>Total</b>	<b>9,747,688</b>	<b>(969,283)</b>	<b>8,778,405</b>



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.1 Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

	31 December 2018		
	Gross carrying amount	Loss allowance	Carrying amount
Cash and bank balance (Stage 1)	1,081,254	–	1,081,254
Financial assets purchased under resale agreements (Stage 1)	95,100	–	95,100
Loans to customers	7,758,731	(601,978)	7,156,753
Stage 1	5,673,505	(109,835)	5,563,670
Stage 2	709,835	(21,824)	688,011
Stage 3	1,375,391	(470,319)	905,072
Financial investments-amortized cost	135,919	(14,443)	121,476
Stage 1	116,205	(1,356)	114,849
Stage 2	–	–	–
Stage 3	19,714	(13,087)	6,627
Other financial assets-amortized cost	987,886	(73,496)	914,390
Stage 1	917,084	(5,046)	912,038
Stage 2	–	–	–
Stage 3	70,802	(68,450)	2,352
<b>Total</b>	<b>10,058,890</b>	<b>(689,917)</b>	<b>9,368,973</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.2 Fair values of financial assets and liabilities

#### (a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

#### (b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balance, financial assets purchased under resale agreements, loans to customers, financial investments-amortized cost, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 30 June 2019, their fair value approximate carrying amounts.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019

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

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.2 Fair values of financial assets and liabilities (Continued)

(c) *Financial instruments measured at fair value*

30 June 2019	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments				
– Listed shares	74,666	–	–	74,666
– Unlisted shares	–	–	362,603	362,603
– Asset management products	–	–	420,446	420,446
– Mutual funds	770,854	–	–	770,854
– Investment in trust schemes which invest in equity products	–	–	273,533	273,533
– Investment in Trust Industry Protection Fund	–	–	95,701	95,701
<b>Investments in associates</b>			487,012	487,012
<b>Total</b>	<b>845,520</b>	<b>–</b>	<b>1,639,295</b>	<b>2,484,815</b>

31 December 2018	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments				
– Listed shares	42,482	–	–	42,482
– Unlisted shares	–	–	556,314	556,314
– Asset management products	–	–	168,603	168,603
– Mutual funds	406,505	–	–	406,505
– Investment in trust schemes which invest in equity products	–	–	312,858	312,858
– Investment in Trust Industry Protection Fund	–	–	92,109	92,109
<b>Investments in associates</b>	–	–	163,694	163,694
<b>Total</b>	<b>448,987</b>	<b>–</b>	<b>1,293,578</b>	<b>1,742,565</b>

During the six months ended 30 June 2019, the Group did not reclassify the financial instruments among different levels (31 December, 2018: nil).

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.2 Fair values of financial assets and liabilities (Continued)

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

##### (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.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.2 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 2019	1,129,884	163,694	1,293,578
Acquisitions	332,972	296,440	629,412
Disposals	(361,396)	–	(361,396)
Gains recognised in profit or loss	50,823	26,878	77,701
30 June 2019	1,152,283	487,012	1,639,295
Unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	30,488	26,878	57,366
1 January 2018	543,009	–	543,009
Acquisitions	595,793	136,400	732,193
Disposals	(32,645)	–	(32,645)
Gains recognised 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 balances held at the end of the reporting period	22,563	27,294	49,857

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2019  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 38.2 Fair values of financial assets and liabilities (Continued)

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

##### (iii) Financial instruments in Level 3 (Continued)

Description	Fair value at 30 June 2019	Valuation technique(s)	Unobservable input	Range
<b>Financial assets at fair value through profit or loss</b>				
- Equity investments	11,734	Market comparable company model	P/E multiple (ii)	12.92
	123,205	Market comparable company model	P/B multiple (ii)	1.08
	153,679	Discounted cash flow	Discount for lack of marketability (i) Discount rate	15%~19% 13%~43%
<b>Investments in associates</b>				
- Investments in associates	487,012	Discounted cash flow	Discount rate	13%~43%

Description	Fair value at 31 December 2018	Valuation technique(s)	Unobservable input	Range
<b>Financial assets at fair value through profit or loss</b>				
- 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 for lack of marketability (i) Discount rate	15%~26% 13%~14.7%
<b>Investments in associates</b>				
- Investments in associates	163,694	Discounted cash flow	Discount rate	13%~15%

(i) Represents amounts used when the Group has determined that market participants take into account these discounts when pricing the investments.

(ii) Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments.

As at 30 June 2019 the remaining investments categorized in Level 3 with fair value of RMB863,665 thousand (31 December 2018: RMB625,604 thousand) were valued based on unobservable inputs such as net assets value of portfolio investments, which were not produced by the Group.





# DEFINITIONS

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

“Articles of Association”	Articles of Association of the Company (as amended from time to time)
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“CBRC” or “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 (“ <b>CBRC</b> ”) 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 interim report and for geographical reference only and except where the context requires, references in this interim report to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
“CNPC Assets Management”	CNPC Assets Management Co., Ltd. (中油資產管理有限公司)
“CNPC Assets Management Trust Framework Agreement”	the trust framework agreement dated 26 August 2019 entered into by the Company and CNPC Assets Management, pursuant to which the Company will provide trust services to CNPC Assets Management and its associates
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“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
“Existing CNPC Assets Management Trust Framework Agreement”	the trust framework agreement dated 16 November 2017 entered into by the Company and CNPC Assets Management, pursuant to which the Company shall provide trust services to CNPC Assets Management and its associates
“Existing Lucion Group Trust Financing Framework Agreement”	the trust financing framework agreement dated 16 November 2017 entered in to by the Company and Lucion Group, pursuant to which the Company shall provide loans or financing services to Lucion Group and its associates

# DEFINITIONS

“Existing Lucion Group Trust Framework Agreement”	the trust framework agreement dated 16 November 2017 entered into by the Company and Lucion Group, pursuant to which the Company shall provide trust services to Lucion Group and its associates
“Existing Lucion Information Technology Service Framework Agreement”	the information technology service framework agreement dated 16 November 2017 entered into by the Company and Luxin Science and Technology, pursuant to which Luxin Science and Technology shall provide information technology services to the Company
“Existing Lucion Outdoor Advertising Framework Agreement”	the outdoor advertising framework agreement dated 16 November 2017 entered into by the Company and Shandong Luxin Advertisement, pursuant to which Shandong Luxin Advertisement shall provide outdoor advertising services to the Company
“Existing Taishan Trust Consulting Framework Agreement”	the trust consulting framework agreement dated 16 November 2017 entered into by the Company and Shandong Taishan Culture Art Exchange, pursuant to which Shandong Taishan Culture Art Exchange shall provide trust consulting services to the Company
“Group”	the Company and the trust schemes over which it has control
“H Share(s)”	overseas listed foreign share(s) in the Company's ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“HK\$” or “Hong Kong dollars”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, the members of which consist of all the independent non-executive Directors, formed to advise the Independent Shareholders with respect to (1) the CNPC Assets Management Trust Framework Agreement; (2) the Lucion Group Trust Framework Agreement; and (3) the Lucion Group Trust Financing Framework Agreement and the proposed annual caps thereunder
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the general meeting
“IFRS”	International Financial Reporting Standards
“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)



# DEFINITIONS

“Lucion Group Trust Framework Agreement”	the trust framework agreement dated 26 August 2019 entered into by the Company and Lucion Group, pursuant to which the Company will provide trust services to Lucion Group and its associates
“Lucion Group Trust Financing Framework Agreement”	the trust financing framework agreement dated 26 August 2019 entered into by the Company and Lucion Group, pursuant to which the Company will provide loans or financing services to Lucion Group and its associates
“Lucion Information Technology Service Framework Agreement”	the information technology service framework agreement dated 26 August 2019 entered into by the Company and Luxin Science and Technology, pursuant to which Luxin Science and Technology will provide information technology services to the Company
“Lucion Outdoor Advertising Framework Agreement”	the outdoor advertising agreement framework agreement dated 26 August 2019 entered into by the Company and Shandong Luxin Advertisement, pursuant to which Shandong Luxin Advertisement will provide outdoor advertising services to the Company
“Luxin Science and Technology”	Luxin Science and Technology Co., Ltd. (魯信科技股份有限公司), a limited liability company established in the PRC, which is a non-wholly owned subsidiary of Lucion Group
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the People’s Republic of China (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them
“Prospectus”	the prospectus issued on 28 November 2017 in connection with the Hong Kong Public Offering
“Renewed Framework Agreements”	collectively, the (1) CNPC Assets Management Trust Framework Agreement, (2) Lucion Group Trust Framework Agreement, (3) Lucion Group Trust Financing Framework Agreement, (4) Lucion Outdoor Advertising Framework Agreement, (5) Taishan Trust Consulting Framework Agreement and (6) Lucion Information Technology Service Framework Agreement
“Reporting Period”	1 January 2019 to 30 June 2019
“RMB” or “Renminbi”	the lawful currency of the PRC

# DEFINITIONS

“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Luxin Advertisement”	Shandong Luxin Advertisement Co., Ltd. (山東魯信廣告有限公司), a limited liability company established in the PRC, which is a non-wholly owned subsidiary of Lucion Group
“Shandong Taishan Culture Art Exchange”	Shandong Taishan Culture Art Exchange Co., Ltd. (山東泰山文化藝術品交易所股份有限公司), a joint stock company limited by shares established in the PRC, which is a 30%-controlled company held by Lucion Group
“Shandong Office of CBIRC”	the Shandong Office of CBIRC (中國銀保監會山東監管局)
“Shandong Trust”, “Company”, “the Company”, “we” or “us”	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), established in the PRC on 10 March 1987 and converted into a joint stock company with limited liability under the PRC Company Law on 30 July 2015
“Shareholder(s)”	holder(s) of our shares
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisors of the Company
“Taishan Trust Consulting Framework Agreement”	the trust consulting agreement framework agreement dated 26 August 2019 entered into by the Company and Shandong Taishan Culture Art Exchange, pursuant to which Shandong Taishan Culture Art Exchange will provide trust consulting services to the Company
“30%-controlled company”	has the meaning ascribed to it under the Listing Rules

\* For identification purpose only



# GLOSSARY OF TECHNICAL TERMS

**This glossary contains definitions of certain terms used in this interim report in connection with our Company and our business. Some of these may not correspond to standard industry definitions or usage of these terms.**

“asset management scheme”	an asset management contract entered into with its client(s) by a securities firm or subsidiary of securities investment fund management company in China, pursuant to which the client(s)' assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC and the securities firm provides asset management services to the client(s) through designated accounts
“AUM”	assets under management, which refers to the amount of the entrusted assets of our trust schemes
“commercial bank(s)”	include large commercial banks, joint-stock commercial banks, city commercial bank, rural commercial banks and foreign banks
“financial assets at FVPL”	financial assets at fair value through profit or loss, which is a category of financial assets under IFRS
“gross amount”	gross amount of a financial asset is the amount before deduction of any provision for impairment losses
“HNWI”	high-net-worth individual
“IT”	information technology
“NAV”	net assets value, which means the value of an entity or trust scheme's assets minus the value of its liabilities
“Net Capital”	a measure provided by the Net Capital Measures, being our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by the China Banking and Insurance Regulatory Commission while the risk deductions are determined by the China Banking and Insurance Regulatory Commission
“Net Capital Measures”	the Administrative Measures on Net Capital of Trust Companies (信託公司淨資本管理辦法) promulgated by the CBRC in August 2010
“R&D”	research and development
“risk-based capital”	a financial measure provided by the Net Capital Measures which is calculated by applying a risk factor to our proprietary assets or trust assets used in the relevant business
“Trust Industry Protection Fund”	Trust Industry Protection Fund (信託業保障基金), a market-oriented risk mitigation system which was established to protect the legitimate interests of the trustees, effectively prevent the risk of the trust industry and facilitate the sound development of the trust industry



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**山東省國際信託股份有限公司**  
Shandong International Trust Co., Ltd.