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LUCION

Shandong International Trust Co., Ltd.

山東省國際信託股份有限公司

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

(Stock Code: 1697)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the “**Board**”) of Shandong International Trust Co., Ltd. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company for the year ended 31 December 2018 (the “**Reporting Period**”). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to preliminary announcements of annual results and the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, financial data of the Company are presented in Renminbi.

In this annual results announcement, the “Group” refers to the Company and the trust schemes included in the consolidated financial statements of the Company (i.e. the trust schemes controlled by the Company).

1. BASIC CORPORATE INFORMATION

1.1 Basic Information

Legal name (in Chinese)	山東省國際信託股份有限公司
Abbreviation in Chinese	山東國信
Legal name (in English)	Shandong International Trust Co., Ltd.
Abbreviation in English	SITC
Legal representative	Wan Zhong (萬眾)
Authorised representatives	Wan Zhong (萬眾) Lee Kwok Fai, Kenneth (李國輝)
Listing exchange of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	SDITC
Stock code	1697

1.2 Contact Person and Contact Details

Secretary to the Board	He Chuangye (賀創業)
Joint company secretaries	He Chuangye (賀創業) Lee Kwok Fai, Kenneth (李國輝)
Registered office	No. 166 Jiefang Road Lixia District Jinan, Shandong Province PRC
Postal code	250013
E-mail address	ir1697@luxin.cn
Internet website	http://www.sitic.com.cn
Principal place of business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong

2. SUMMARY OF FINANCIAL DATA

2.1 Summary of Consolidated Statements of Profit or Loss

		Year ended 31 December	
	<i>Note</i>	2018	2017
		<i>(RMB in thousands)</i>	
Fee and commission income	2	891,301	1,129,771
Interest income	3	647,511	490,698
Net changes in fair value on financial assets at fair value through profit or loss	4	(32,274)	1,793
Investment (loss)/income	5	(25,231)	21,148
Net gains on disposal of associates held by consolidated structured entities	6	160,851	–
Other operating income		52,348	4,487
Total operating income		1,694,506	1,647,897
Total operating expenses		(699,856)	(696,158)
Share of profit of investments accounted for using the equity method		132,197	167,675
Operating profit before income tax		1,126,847	1,119,414
Income tax expense	11	(254,599)	(224,609)
Net profit attributable to shareholders of the Company		872,248	894,805

2.2 Summary of Consolidated Statements of Financial Position

	<i>Note</i>	As at 31 December	
		2018	2017
		<i>(RMB in thousands)</i>	
Total current assets		6,333,573	6,376,824
Total current liabilities		2,273,094	2,504,789
Total non-current assets		7,278,179	6,525,223
Total non-current liabilities		1,797,966	1,249,718
Total assets		13,611,752	12,902,047
Total liabilities		4,071,060	3,754,507
Total equity		9,540,692	9,147,540

2.3 Summary of Consolidated Statements of Cash Flow

	<i>Note</i>	Year ended 31 December	
		2018	2017
		<i>(RMB in thousands)</i>	
Net cash generated from/(used in) operating activities		949,939	(872,191)
Net cash (used in)/generated from investing activities		(694,001)	21,525
Net cash (used in)/generated from financing activities		(382,093)	1,749,017
Effect of exchange rate changes on cash and cash equivalents		34,601	(29)
Net (decrease)/increase in cash and cash equivalents		(91,554)	898,322
Cash and cash equivalents at beginning of the year		1,172,808	274,486
Cash and cash equivalents at end of the year	18	1,081,254	1,172,808

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment Overview

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

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

3.2 Business Overview

As a trust company regulated by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly known as China Banking Regularity Commission (the “CBRC”), the Company is permitted to conduct businesses across a number of markets, such as the real economy, capital markets and money markets. Following a market-oriented approach, the Company closely monitors changes in the economic and market conditions in the PRC to identify market opportunities, and has timely and adeptly adjusted its development strategies to proactively grow its business and achieve the “dual drivers” for the trust business and the proprietary business. In 2018, the Company was rated “Class A” (the highest rating attainable) in the industry-wide rating organised by the China Trustee Association (中國信託業協會) for 2017 based on a comprehensive assessment of the Company’s capital strength, risk management capability, incremental value and social responsibility. The Company has obtained the Class A rating for three consecutive years. The Company was rated the highest AAA rating for six consecutive years in the comprehensive assessment of local financial institutions in Shandong.

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

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

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

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

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

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

3.2.1 Trust Business

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

In 2018, backed by stringent supervision of and regulation on the financial industry through “de-channeling” and “deleveraging”, the regulatory authorities have strengthened their management of and control over pipeline business of the financial industry, causing overall shortage of market capital, a year-on-year decrease in the expansion of social financing scale, and increased difficulty for financial institutions to get access to funds. Meanwhile, the introduction of new regulations on asset management has begun to impose tightening effect on the trust industry. The Company took the initiative in downsizing its pipeline business, paid more attention to improving its active management capability, and accelerated the pace of the trust industry to revisit the fundamentals. In 2018, both the trust assets under management (“AUM”) and income from trust business of the Company recorded a year-on-year decrease, while the proportions of scale of AUM of and income from actively managed trust to the total trust business maintained a steady growth. The trust AUM of the Company decreased from RMB263,408 million as at 31 December 2017 to RMB231,922 million as at 31 December 2018, and the total number of trusts were 955 and 1,078, respectively, as at the respective dates. As at 31 December 2018, the AUM of actively managed trust was RMB89,658 million, accounting for 38.7% of the total trust AUM (indicating a year-on-year growth of 9.1 percentage points). During the Reporting Period, revenue from the actively managed trust amounted to RMB627 million, accounting for 70.4% of the fee and commission income of the total income from trust business (indicating a year-on-year increase of 1.0 percentage point).

Classification of trusts

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

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

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

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

	As at 31 December			
	2018		2017	
	Number	AUM	Number	AUM
	<i>(AUM: RMB in millions)</i>			
Financing trusts	136	42,227	146	48,314
Investment trusts	531	47,431	296	29,645
Administrative management trusts	411	142,264	513	185,449
Total	1,078	231,922	955	263,408

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

	Year ended 31 December			
	2018		2017	
	Revenue	%	Revenue	%
	<i>(Revenue : RMB in millions)</i>			
Financing trusts	464	52.08	562	49.74
Investment trusts	163	18.29	222	19.64
Administrative management trusts	264	29.63	346	30.62
Total	891	100.00	1,130	100.00

Financing Trusts

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

- (1) **Real Estate Trusts:** The Company's real estate trusts focus on arranging debt financing and equity financing for real estate development projects located in China which are undertaken by top Chinese real estate developers. During the Reporting Period, the Company continued to promote the shift of real estate trusts from debt financing to "equity rights + creditors' rights" and equity investment. By sending onsite managers and engaging third-party professional institutions to be in charge of management, the Company continued to enhance its active management capability and risk control for real estate projects and enhanced cooperation with counterparties.
- (2) **Infrastructure Trusts:** The infrastructure trusts mainly focus on arranging debt financing for infrastructure development projects located in the PRC that are undertaken by local authorities or companies that serve as financing platforms.
- (3) **Industrial and Commercial Enterprises Trusts:** The Company's industrial and commercial enterprises trusts focus on arranging various forms of financing for companies to satisfy their working capital needs in the general industrial and commercial sectors in the PRC. In 2018, the Company offered support to industrial and commercial sectors via industry investment funds, equity investments and quasi-asset backed securities, which diversified the instruments available for the industrial and commercial sectors.

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

Investment Trusts

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

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

- (1) **Equity Investment Trusts:** The Company’s equity investment trusts mainly invest in the equity of unlisted enterprises or trust business of other equity which may be invested as approved by the CBIRC with the funds of trust under the trust plan.
- (2) **Securities Investment Trusts:** The Company’s securities investment trusts mainly invest in entrusted funds in combinations of publicly traded securities, including equity securities traded on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and inter-bank bond market throughout the country, closed-end and open-end securities investment funds, enterprise bonds, treasury notes and related derivative products. The Company offers three major types of securities investment trusts: (i) management securities investment trusts, (ii) structured securities investment trusts, and (iii) bond markets trusts.
- (3) **Indirect Investment Trusts:** The Company’s indirect investment trusts do not directly invest in any particular class of assets (such as listed securities). Instead, such trusts subscribe to an asset management scheme initiated by a security firm or other financial institutions or limited partner interests in a limited partnership. The target asset management scheme or limited partnership then provide funding to counterparties in the form of the equity investment.

- (4) Family Trusts: The Company can assist individual clients to achieve goals on wealth succession through the Company's family trusts. The Company's clients may entrust funds as well as other types of properties, such as real properties, securities, beneficial interests of insurance policies and precious metals, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. As people in the PRC are becoming wealthier and the rapid expansion of group of ultra high-net-worth individuals ("UHNWI"), family trusts became widely recognised by UHNWIs due to advantage of family trusts in wealth succession, family affairs management and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 31 December 2018, the Company's family trust business has signed in aggregate a contract amount of RMB7.66 billion, of which the trust assets that have actually been delivered amounted to RMB5.836 billion, representing a year-on-year increase of 194.21%, thus continuing to secure a leading position in the industry. Since 2018, the Company successfully implemented an order of delivering RMB0.5 billion super-large scale pure capital family trust product, special-purpose family trust and independent investment right retained family trust. It officially launched the family trust brand "De Shan Qi Jia", representing that the Company has reached a new level in the breadth and depth of development of family trust and family office business. The Company's "Wealth Succession Family Trust" (財富傳承系列家族信託) was awarded again with the "Best Family Trust Scheme" (優秀家族信託計劃) by Securities Times (證券時報), representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customized family trust services.

- (5) Discretionary Wealth Management Trusts: Other than the family trust business, the Company is also developing private and institutional wealth management business. The Company has established certain individual trusts whereby clients entrust their funds to the Company through the trust plan and allow the Company to allocate the funds into different trust products chosen by the Company based on their respective investment needs. The trust agreements normally set forth the general scope of investment as set by the trustors, and the Company is granted with full discretion on allocation of the trust assets. During the Reporting Period, the Company continued to exert effort on developing customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 31 December 2018, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB2.048 billion.
- (6) Other Trusts: In addition to the above investment trusts, the Company also established alternative investment trusts and charitable trusts. Alternative investment trusts mainly invest in alternative assets such as diamonds and artworks, while charitable trusts are manifestations of the Company's active performance for its corporate social responsibility. In 2018, the Company's charitable trusts evolved into a branded business development model that integrates with the Company's family trust business. As at 31 December 2018, the Company managed three charitable trusts, with the AUM reaching RMB35.2 million.

As at 31 December 2017 and 31 December 2018, the Company had 296 and 531 investment trusts, respectively, with AUM increasing by 60.0% from RMB29,645 million as at 31 December 2017 to RMB47,431 million as at 31 December 2018. Revenue from investment trusts for 2018 amounted to RMB163 million, representing a decrease of 26.6% as compared to 2017.

Administrative Management Trusts

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

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

3.2.2 Proprietary Business

In 2018, in order to reasonably allocate its own funds and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the "investment and loan linkage mechanism", and provided great support for the transformation and innovation of the trust business. Secondly, the Company captured the opportunities arising from the qualification to conduct equity investment business with its proprietary assets and participated in the establishment of venture capital fund, in a bid to seek proprietary business transformation and foster new growth engines. Thirdly, the Company actively pushed forward the equity transfer for First-Trust Fund Management Co. Ltd.* (泰信基金管理有限公司)

and focused on the optimisation of the layout of the financial equity investment business. Fourthly, with liquidity being assured, short term operations such as government bonds purchased under agreements to resell, purchase of wealth management products and dedicated account management for overseas assets were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Through its incessant efforts, the Company recorded an income of RMB883.1 million for its proprietary business in 2018, representing a year-on-year increase of 29.6%.

Allocation of Proprietary Assets

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

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

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

	As at 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Investments in monetary assets	993,793	2,014,511
Deposits at banks	898,693	1,063,111
Government bonds purchased under agreements to resell	95,100	951,400
Securities Investments	6,643,234	5,022,948
<i>Investment in equity products</i>	406,645	414,208
Listed shares classified as:		
– financial assets at FVTPL	1,601	18,199
– available-for-sale financial assets	N/A	5,431
Subtotal	1,601	23,630
Mutual funds classified as:		
– financial assets at FVTPL	360,759	81,246
– available-for-sale financial assets	N/A	276,832
Subtotal	360,759	358,078
Equity investment in an unlisted entity classified as financial assets at FVTPL	44,285	32,500

As at 31 December
2018 2017
(RMB in thousands)

Investment in wealth management products

Investments in our consolidated trust schemes	5,508,521	4,167,021
Investments of the financial assets in our unconsolidated trust schemes and classified as loans and receivables	N/A	243,990
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortized cost	60,210	N/A
Investment in unconsolidated trust schemes classified as financial assets at FVTPL	534,345	30,000
Asset management plans	133,513	167,729
Long-Term Equity Investments	1,364,214	1,238,322
Investment accounted for using the equity method	1,246,219	1,125,161
Investment categorized as financial assets at FVTPL	117,995	–
Investments classified as available-for-sale financial assets	N/A	113,161
Proprietary Loans	516,573	519,400
Trust Industry Protection Fund	92,109	68,626
Total	9,609,923	8,863,807

Monetary Assets

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

	As at 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Investment in monetary assets		
– Deposit at banks	898,693	1,063,111
– Government bonds purchased under agreements to resell	95,100	951,400
Total	993,793	2,014,511
	Year ended 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Interest income generated from:		
– Deposit at banks	11,692	2,003
– Government bonds purchased under agreements to resell	17,888	18,374
Total	29,580	20,377

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

Securities Investments

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

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

	Year ended 31 December	
	2018	2017
<i>(RMB in millions, except risk category)</i>		
Risk category of underlying investments		
– Equity products	High	High
– Trust schemes	Medium	Medium
– Asset management products	Medium	Medium
Average investment balance⁽¹⁾		
– Equity products	410.4	396.6
– Trust schemes	5,272.0	4,128.3
– Asset management products	150.6	161.7

Note:

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 3.5% from RMB396.6 million in 2017 to RMB410.4 million in 2018; the average balance of investments in trust schemes increased by 27.7% from RMB4,128.3 million in 2017 to RMB5,272.0 million in 2018; and the average balance of the Company's investments in asset management products decreased by 6.9% from RMB161.7 million in 2017 to RMB150.6 million in 2018.

Long-Term Equity Investments

The Company has made strategic long-term investments in a number of financial institutions, which helped the Company to establish stronger business relationships with these financial institutions and created synergies for its business operations. The following table sets forth the major equity investments of the Company in financial institutions as at 31 December 2018, including their main businesses, the Company's proportionate equity interests in them, whether the Company held any board seat, the date of the Company's first investment, and the relevant accounting treatment of each of the investments.

Name	Main business	Equity interest as at 31 December 2018	Board seat	First investment date	Accounting treatment
First-Trust Fund Management Co., Ltd.* (泰信基金 管理有限公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method
Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃 汽車金融有限 公司)	Automobile financing	10.00%	Yes	September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd.* (富國基金 管理有限公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd.* (泰山 財產保險股份 有限公司)	Insurance products and services	9.85%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd.* (德州銀行 股份有限公司)	Commercial banking	2.37%	Yes	November 2009	Investments accounted for using the equity method
Minsheng Securities Co., Ltd.* (民生 證券股份有限 公司)	Securities brokerage, securities asset management and proprietary trading	1.38%	No	January 1999	Financial assets at FVTPL

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

	As at 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Long-term equity investments, accounted for:		
– As associate using the equity method	1,246,219	1,125,161
– Investment categorized as financial assets at FVTPL	117,995	–
– As available-for-sale financial assets	N/A	113,161
Total	<u>1,364,214</u>	<u>1,238,322</u>
	Year ended 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Dividend income generated from:		
– Associates accounted for by the equity method	25,013	55,746
– Financial assets at FVTPL	5,911	–
– Available-for-sale financial assets	N/A	332
Total	<u>30,924</u>	<u>56,078</u>

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

Proprietary Loans

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. As at 31 December 2017 and 31 December 2018, the outstanding balance of the Company's proprietary loans were RMB519.4 million and RMB516.6 million, respectively.

Trust Industry Protection Fund

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

3.3 Financial Overview

Consolidated Income Statements Analysis

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

3.3.1 Results of Operations

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

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

3.3.2 Total Operating Income

Fee and Commission Income

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

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

The Group's fee and commission income in 2018 were RMB891.3 million, representing a decrease of 21.1% as compared to the RMB1,129.8 million in 2017. Such decrease was primarily due to a decrease in the Group's trustee's remuneration, which was caused by a decrease in trust AUM and decrease in floating trustee's remuneration received by the Company.

Interest Income

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

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

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

- (1) the Group's interest income from loans to customers increased by 34.3% from RMB448.1 million in 2017 to RMB601.8 million in 2018 primarily due to an increase in average balance of loans granted by the Group's consolidated trust schemes from 2017 to 2018 as a result of increase in the aggregate size of such consolidated trust schemes.
- (2) the Company's interest income from cash and bank balance increased by 483.7% from RMB2.0 million in 2017 to RMB11.7 million in 2018, primarily due to the increase in income from the proceeds raised from the global offering of the Company in December 2017 which was partially deposited with overseas banks.

Net Changes in Fair Value on Financial Assets at FVTPL

Net changes in fair value on financial assets at FVTPL turned from a gain of RMB1.8 million in 2017 to a loss of RMB32.3 million in 2018, which mainly attributable to the significant decrease in the net amount of the fund held by the Company.

Investment (loss)/Income

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

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

The Group's investment loss in 2018 was RMB25.2 million, decreased by RMB46.3 million as compared to the gain of RMB21.1 million in 2017, which was mainly attributed to the losses incurred from the disposal of stocks and funds by the Company in 2018.

Net gains on disposal of associates held by consolidated structured entities

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

3.3.3 Total Operating Expenses

Interest Expenses

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

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

Staff Costs

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

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

The Company's staff costs in 2018 was RMB125.5 million, decreased by 28.6% as compared to RMB175.7 million in 2017, primarily due to the decreases in salaries and bonuses. The decrease in salaries and bonuses was caused by the decrease in the Company's fee and commission income.

Tax and Surcharges

The Company's tax and surcharges decreased by 10.9% from RMB14.6 million in 2017 to RMB13.0 million in 2018, primarily due to the decrease in stamp duty paid in 2018.

Other Operating Expenses

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

Impairment Losses on Assets

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

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

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

Impairment loss on other assets of the Group for 2018 amounted to RMB33.1 million, which was primarily due to the occurrence of the impairment loss on artwork invested by the Group.

Share of Profit of Investments Accounted for Using the Equity Method

The Group's share of profit of investments accounted for using equity method decreased by 21.2% from RMB167.7 million in 2017 to RMB132.2 million in 2018, primarily due to the increase in investment gain from Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金融有限公司), which was partially offset by the investment losses from First-Trust Fund Management Co., Ltd.* (泰信基金管理有限公司) and Zouping SPD Rural Bank Co., Ltd. (鄒平浦發村鎮銀行股份有限公司).

Operating Profit before Income Tax and Operating Margin

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

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

Note:

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

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

Income Tax Expense

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

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

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

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

Note:

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

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

3.3.4 Segment Results of Operations

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

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

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

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

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

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

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

	Year ended 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Trust business	76.6%	74.1%
Proprietary business	45.7%	41.0%

3.3.5 Trust Business

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

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

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

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

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

3.3.6 Proprietary Business

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

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

- (1) The increase in segment operating expenses from proprietary business was mainly due to (i) the increase in interest expense from RMB167.7 million in 2017 to RMB192.8 million in 2018; (ii) an increase in the change in net assets attributable to other beneficiaries of consolidated structured entities from RMB-1.8 million in 2017 to RMB19.8 million in 2018; and (iii) an increase in loan impairment charges and other credit risk provision and impairment loss on other assets from RMB228.5 million in 2017 to RMB253.9 million in 2018.
- (2) The increase in segment income from proprietary business was mainly due to (i) an increase in interest income from RMB490.1 million in 2017 to RMB646.8 million in 2018; (ii) net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in 2018, as compared to 0 in 2017. Interest income and net gains on disposal of associates held by consolidated structured entities were partially offset by the decrease of net changes in fair value on financial assets at FVTPL from a gain of RMB1.8 million in 2017 to a loss of RMB32.3 million in 2018 and the investment revenue of RMB21.1 million in 2017 to a loss of RMB25.2 million in 2018.

As a result of the foregoing, the segment margin of the Group's proprietary business increased from 41.0% in 2017 to 45.7% in 2018.

3.3.7 Selected Consolidated Financial Positions

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

Assets

As at 31 December 2017 and 31 December 2018, total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB12,902.0 million and RMB13,611.8 million, respectively, among which, total assets of the Company amounted to RMB10,117.7 million and RMB10,975.9 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments measured at amortised cost, (iv) financial assets at FVTPL, (v) cash and bank balances, (vi) trustee's remuneration receivable, and (vii) financial assets purchased under agreement to resell. As at 31 December 2018, the above-mentioned major assets accounted for 52.6%, 15.5%, 0.9%, 11.6%, 7.9%, 1.9% and 0.7% of the Group's total assets, respectively.

Loans to Customers

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

	As at 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	7,683,391	6,581,191
Interest receivable	75,340	N/A
Less: Expected credit losses provision		
– loan	(600,424)	N/A
– Expected credit losses provision		
– interest receivable	(1,554)	N/A
– Collectively assessed	N/A	(114,726)
– Individually assessed	N/A	(284,033)
Loans to customers, net	7,156,753	6,182,432
Analysed into:		
– Non-current assets	3,249,109	3,196,960
– Current assets	3,907,644	2,985,472
Loans to customers, net	<u>7,156,753</u>	<u>6,182,432</u>

The substantial majority of the Group's loans to customers were granted by the Company's consolidated trust schemes. The gross amount of the Group's loans to customers increased continuously during the Reporting Period primarily because more financing trust scheme were consolidated by the Company in accordance with IFRS 10 in 2018 than those in 2017.

All of the Group's loans to customers were granted to corporate customers during the Reporting Period.

Some of the loans granted by the Company's trust schemes to which it made proprietary investment and consolidated into the Company's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 62.8% from RMB844.9 million as at 31 December 2017 to RMB1,375.4 million as at 31 December 2018. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2017 and 31 December 2018 was RMB1,334.4 million and RMB765.3 million, respectively. The Company performed individual assessments to determine the provision for impairment losses on those loans and made allowance for impairment of RMB284.0 million and RMB470.3 million for these impaired loans as at 31 December 2017 and 31 December 2018, respectively, representing 33.6% and 34.2% of the gross amount of those loans, respectively. The Company believes adequate impairment allowances have been provided for those impaired loans, as such impairment allowances were provided in accordance with the provisions under IAS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 12.8% and 17.9% of the Group's gross loans to customers as at 31 December 2017 and 31 December 2018, respectively.

While the Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans, the Company does not regularly conduct such business. As at 31 December 2018, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 7.8% and 7.3% of the gross amount of the Company's loans to customers and the net amount of the Company's loans to customers, respectively.

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

	As at 31 December	
	2018	2017
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	602,000	530,000
Interest receivable	28,500	N/A
– Expected provision of credit losses		
– loan	(85,427)	N/A
– Expected provision of credit losses		
– interest receivable	(588)	N/A
– Collectively assessed	N/A	10,600
– Individually assessed	N/A	–
Loans to customers, net	544,485	519,400
Analysed into:		
– Non-current assets	148,185	372,400
– Current assets	396,300	147,000
Loans to customers, net	<u>544,485</u>	<u>519,400</u>

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

Investments in Associates

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

	Equity Interest as at 31 December 2018	As at 31 December 2018 <i>(RMB in thousands)</i>	2017
Associates of the Company:			
Fullgoal Fund Management Co., Ltd.	16.68%	565,995	473,176
Dezhou Bank Co., Ltd.	2.37%	150,010	139,152
First-Trust Fund Management Co., Ltd.	45.00%	68,833	105,642
Shandong HOWO Auto Finance Co., Ltd.	10.00%	192,474	169,887
Zouping SPD Rural Bank Co., Ltd.	10.00%	8,510	26,157
Taishan Property & Casualty Insurance Co., Ltd.	9.85%	207,147	211,147
Shandong Luxin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership)	26.00%	52,000	—
Anhui Luxin Equity Investment Fund Management Company Limited	25.00%	1,250	—
Gross amount	—	1,246,219	1,125,161

	Equity Interest as at 31 December 2018	As at 31 December 2018 (RMB in thousands)	2017
Impairment allowance	–	–	–
Associates of the Company, net		1,246,219	1,125,161
Associates of the Company's certain consolidated structured entities accounted for using the equity method			
Shandong Provincial Financial Asset Management Co., Ltd.	7.24%	621,044	618,730
Tailong Health Industry Investment Company Limited	26.05%	52,100	80,000
Others		33,391	78,143
Gross amount		706,535	776,873
Less: Impairment allowance		(7,667)	–
Associates of the Company's certain consolidated structured entities accounted for using the equity method, net	–	698,868	776,873
Associates indirectly held by the Group through trust schemes measured at fair value:			
Shenzhen Qianhai Run Xin Investment Co., Ltd.	30%	18,900	–
Henan Liang Ding Property Co., Ltd.	35%	94,650	–
Liaocheng Liang Hong Property Co., Ltd.	15%	50,144	–
Gross amount		163,694	–
Total		2,108,781	1,902,034

Financial Assets at FVTPL

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

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

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

Cash and Bank Balances

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

Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable decreased by 20.1% from RMB315.0 million as at 31 December 2017 to RMB251.8 million as at 31 December 2018. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company will normally be allowed to receive trustee remuneration after the trust has paid its quarterly dividends, the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 28 February 2019, 12.4% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Agreements to Resell

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

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

Prepayments

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

Contribution to Trust Industry Protection Fund due from Counterparty Clients

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

Liabilities

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

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) decreased by 6.0% from RMB2,687.0 million as at 31 December 2017 to RMB2,525.8 million as at 31 December 2018. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

Income Tax Payable

The Company's income tax payable increased by 5.6% from RMB178.9 million as at 31 December 2017 to RMB188.9 million as at 31 December 2018.

Other Current Liabilities

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

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB133.6 million as at 31 December 2017 to RMB283.7 million as at 31 December 2018.

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

The Notice in relation to Value-Added Tax Policies on Asset Management Products (Cai Shui [2017] No. 56) (《關於資管產品增值稅有關問題的通知》(財稅[2017]56 號)) was promulgated by the Ministry of Finance of the PRC and the State Administration of Taxation on 30 June 2017 (the "Notice"). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As of 31 December 2018, the outstanding VAT for trusts and the related surcharges amounted to RMB188.9 million.

Off-balance Sheet Arrangements

As at 31 December 2018, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

3.3.8AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes

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

As at 31 December 2017 and 2018, the Company consolidated 45 and 51 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB6,957.6 million and RMB8,676.8 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	As at 31 December	
	2018	2017
At the beginning of the period:	45	36
Newly consolidated trust schemes	23	17
Deconsolidated trust schemes	17	8
At the end of the period:	51	45

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

	As at 31 December	
	2018	2017
	<i>(RMB in millions)</i>	
Total assets of the Company	10,976	10,118
Total assets of consolidated trust schemes	8,677	6,958
Consolidation adjustment	(6,041)	(4,174)
Total assets of the Group	<u>13,612</u>	<u>12,902</u>

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

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

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

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

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

	As at 31 December	
	2018	2017
	<i>(RMB in millions)</i>	
Total equity of the Company	9,368	9,050
Consolidation adjustment	<u>173</u>	<u>97</u>
Total equity of the Group	<u>9,541</u>	<u>9,147</u>

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

Year ended 31 December
2018 2017
(RMB in millions)

Net profit attributable to the Company's shareholders before consolidation of trust schemes	784	803
Impact of consolidation of trust schemes	88	91
Net profit attributable to the Group's shareholders after consolidation of trust schemes	<u>872</u>	<u>894</u>

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

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

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

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

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

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

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

3.4 Risk Management

3.4.1 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.

3.4.2 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 are required to assume primary risk management responsibilities.

3.4.3 Factors Affecting the Company's Results of Operations

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

General Economic and Financial Market Conditions

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

After Chinese economy has experienced rapid growth over the past 40 years, it has entered a stage of high-quality development characterised by economic structure optimisation, industry transformation and upgrading. The structural transformation of the Chinese economy and fluctuations in macroeconomic policy and financial market present challenges for the Company's business. For example, regulation of the real estate industry in China and control on local governments to incur debts may negatively affect the Company's trust business. Under the background of economic slowdown, structural adjustment and financial "deleveraging", macroeconomic situation created certain pressure and constraint on the capital and asset sides of trust industry. The Company's clients may reduce their investment activities or financing needs during times of economic slowdown, which may reduce the demand for the Company's various types of trust products. Financial risks of individual cases may break out more often during times of economic slowdown, which may increase the default risks of the Company's counterparties. On the other hand, the Company may identify new business opportunities during such economic transformation and take advantages of the changes in financial market conditions and the Company may increase its business in areas that can counteract the impact of downward economic cycle. There are, however, uncertainties in the Company's ability to effectively respond to changes in general economic and financial market conditions and increase in its innovative business may not be able to offset decrease in its traditional business, and therefore, the trust business will continue to be significantly affected by general economic and financial market conditions in China.

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

Regulatory Environment

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

In addition, the regulatory environment of other financial industries in China may also indirectly impact the Company's trust business. For example, in September 2018, the CBIRC promulgated the "Administrative Measures for Supervision of Wealth Management Business of Commercial Banks" (《商業銀行理財業務監督管理辦法》) and the "Administrative Measures for Wealth Management Subsidiaries of Commercial Banks" (《商業銀行理財子公司管理辦法》) in December, which clearly stipulated the wealth management business of commercial banks, allowing commercial banks to develop asset management services through the establishment of financial management subsidiaries. The Company has traditionally benefited from the expanded business scope under the Company's trust license. However, other financial institutions, such as commercial banks, may be able to offer an increasing number of products and services that are similar to these offered by the Company and the Company may lose some of the Company's advantages and faces increased competition as a result.

Business Lines and Product Mix

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

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

Competition

The Company faces competition from other trust companies in China. In the course of internal development in the trust industry with the momentum characterised by differentiation, most of the trust companies are working on expansion and innovation in a proactive and effective manner. The Company competes with these trust companies in terms of client base, knowledge of the relevant industries, active management capability, innovation capability, reputation, creditworthiness, shareholders' background and support. The Company will leverage on its own advantages, shareholders' background, strategic partnership as well as research and development and innovative capabilities, fostering business expansion and financial innovation to reinforce the Company's competitive position while maintaining its profitability.

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

Interest Rate Environment

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

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

3.4.4 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.

3.4.5 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.

3.4.6 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.

3.4.7 Compliance Risk Management

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

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

3.4.8 Operational Risk Management

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

3.4.9 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".

3.4.10 Other Risk Management

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

3.4.11 Anti-money Laundering Management

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

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

Pursuant to the Company's Administrative Measures on Anti-Money Laundering, the Company has established a client identification system, which requires employees of the Company to effectively verify and continuously update the identification data of the Company's clients. For example, employees of the Company are required to conduct comprehensive background due diligence on the potential clients, including verifying the validity of the identification data provided, such as the respective corporate certification for enterprises and individuals, or individual identity cards, as well as understanding sources of funds, liquidity and potential transaction purposes of such potential clients. Also, employees of the Company are required to continuously update such clients' identification data during its daily operation, in particular where there is any material change. Employees shall conduct further investigations if any irregularity is identified in connection with the clients' operational or financial status, or their usual transaction patterns, or there was any discrepancy between any new data available to the Company and the data previously provided to the Company, or any suspicious activities involving money laundering or terrorist financing. The Company may terminate the business

relationship with a client if it fails to provide it with the most updated and valid identification documents within a certain period upon the Company's request. The identification data of the Company's clients is recorded and archived in accordance with the relevant PRC laws. Such identification data and any information or materials relating to the Company's transactions and accounts with the Company would be kept for at least five years after the relevant party ceases to be a client of the Company.

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

3.5 Capital Management

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

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

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

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

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

3.6 Future Prospects

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

3.7 Key Tasks for 2019

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

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

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

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

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

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

4. USE OF PROCEEDS

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

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

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

5. PROFITS AND DIVIDENDS

The Company’s profits for the year ended 31 December 2018 are set out in “Management Discussion and Analysis – Financial Overview” in this annual results announcement.

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

The Board has recommended the payment of the final dividend of RMB0.081 per share (tax inclusive) in cash for the year ended 31 December 2018, representing a total payment of approximately RMB377.4 million (tax inclusive). The final dividend is subject to approval of the shareholders at the forthcoming annual general meeting of the Company for 2018. If approved, the final dividend of the Company for the year ended 31 December 2018 will be denominated and declared in Renminbi. Distribution of the dividends to holders of domestic shares of the Company will be paid in Renminbi, while dividends to holders of H shares of the Company will be paid in Hong Kong dollars of an equivalent amount. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average central parity exchange rate of the five business days preceding the date of the Company's 2018 annual general meeting (i.e. 23 May 2019), as announced by the People's Bank of China. A separate announcement will be published for the above distribution of final dividends.

6. DIRECTORS (THE “DIRECTORS”), SUPERVISORS (THE “SUPERVISORS”) AND SENIOR MANAGEMENT OF THE COMPANY

As at the date of this annual results announcement, the compositions of the Board, the board of supervisors (the “**Board of Supervisors**”) and senior management of the Company are as follows:

The Board is comprised of Mr. Wan Zhong (“**Mr. Wan**”) (Chairman) and Mr. Yue Zengguang (“**Mr. Yue**”) as executive Directors; Mr. Xiao Hua (Vice Chairman) and Mr. Jin Tongshui as non-executive Directors; and Mr. Yan Huaijiang, Mr. Ding Huiping and Ms. Meng Rujing as independent non-executive Directors.

The Board of Supervisors is comprised of Mr. Guo Shougui as the Chairman, 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 as Supervisors.

The senior management of the Company is comprised of Mr. Yue Zengguang (general manager), Ms. Zhou Jianqu, Mr. He Chuangye (secretary to the Board), Mr. Ma Wenbo, Mr. Fu Jiguang and Mr. Niu Xucheng.

During the Reporting Period, the changes in Directors, Supervisors and senior management of the Company are as follows:

Changes of Directors

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

Mr. Wan Zhong has been appointed as the 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 CBIRC and took effect from 9 January 2019.

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

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

Changes of Supervisors

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

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

Changes of senior management

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

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

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

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

7. CORPORATE GOVERNANCE CODE

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

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

As Ms. Wang Yingli ceased to serve as an executive Director and the chairperson of the Company due to the expiry of her term of office since 10 July 2018, Mr. Wan Zhong concurrently served as the general manager and acting chairperson. After the qualification of Mr. Yue to hold the office as the general manager was approved by the Shandong Office of the CBRC on 3 September 2018, the positions for chairperson and general manager of the Company have been assumed by different persons. By then, code provision A.2.1 of the Corporate Governance Code has been satisfied.

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

8. MODEL CODE FOR CONDUCTING SECURITIES TRANSACTIONS

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

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

9. PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

From 1 January 2018 to 31 December 2018, the Company did not purchase, sell or redeem any of the Company’s listed securities.

10. CONNECTED TRANSACTIONS

10.1 Matters in Relation to Establishment of Capital Venture Parent Fund

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

On 26 October 2018, Shandong High-Tech and Luxin Venture Capital are subsidiaries of Shandong Luxin Investment Holdings Group Co., Ltd. (“**Lucion Group**”), the controlling shareholder of the Company and hence they are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Limited Partnership Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. For details of the establishment of the Venture Capital Parent Fund and the Limited Partnership Agreement, please refer to the announcement of the Company published on 26 October 2018.

10.2 Possible Establishment of Taihe Fund

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

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

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

11. SIGNIFICANT EVENTS

11.1 Change of Registered Capital and Change of Principal Business Place in Hong Kong

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

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

11.2 Capitalisation Issue and Change in Board Lot Size

As authorised at the 2018 second extraordinary general meeting convened by the Company on 19 October 2018, 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 “**Capitalisation Issue**”). The total shares in issue immediately following the completion of Capitalisation Issue increased to 4,658,850,000 Shares, comprising 3,494,115,000 domestic shares and 1,164,735,000 H Shares. The listing and trading of new H shares on the Hong Kong Stock Exchange commenced on 9 January 2019. The board lot size of H shares trading has been changed from 1,000 H shares to 1,800 H shares, with effect from 9 January 2019 (the “**Change in Board Lot Size**”). For details about the Capitalisation Issue and the Change in Board Lot Size, please refer to the circular dated 3 September 2018 and the poll result announcement dated 19 October 2018.

Immediately following the completion of Capitalisation Issue, the issued share capital of the Company increased from RMB2,588,250,000 to RMB4,658,850,000. The Company has received the approval of Shandong Office of the CBIRC in respect of the change of registered capital by way of Capitalisation Issue and completed the registration procedure of change in registered capital 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 herein, the Company had not changed its registered capital or its capital structure during the Reporting Period.

11.3 Amendments to the Articles of Association of the Company

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

The Company amended the Articles of Association in accordance with, among other things, the recent amendments on the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), comments and instructions raised by the regulatory authorities including the Shandong Office of the CBRC, the Listing Rules, the Mandatory Provisions for the Articles of Association of the Companies to be Listed Overseas (《到境外上市公司章程必備條款》) and the actual situations of the Company. The Company also amended the Articles of Association in light of the subsequent change in the Company's registered capital upon completion of the Capitalisation Issue, the details of which were set out in the circular of the Company dated 3 September 2018. Details of the resolutions regarding the amendments were approved by the shareholders of the Company at the 2018 second extraordinary general meeting of the Company held on 19 October 2018.

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

11.4 Proposed Adoption of Recovery and Disposal Plan

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

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

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

11.5 Material Legal Proceedings and Arbitration

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

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

11.6 Material Assets Acquisition, Sales and Merger

During the Reporting Period, the Company had no material assets acquisition, sale and merger.

11.7 Penalties Imposed on the Company, Directors, Supervisors and Senior Management

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

11.8 Provisional Report on Material Issues

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

11.9 Important Information Which the CBIRC and Its Provincial Offices Considered Necessary to Inform Clients and Stakeholders

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

11.10 Rectification Opinion Issued by the CBIRC and Its Local Offices Upon Inspection of the Company

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

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

12. EXTRACT OF ANNUAL FINANCIAL STATEMENTS

(All amounts in RMB thousands unless otherwise stated)

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

12.1 Consolidated Statement of Profit or Loss

		Year ended 31 December	
	<i>Note</i>	2018	2017
		<i>(RMB in thousands)</i>	
Fee and commission income	2	891,301	1,129,771
Interest income	3	647,511	490,698
Net changes in fair value on financial assets at fair value through profit or loss	4	(32,274)	1,793
Investment (loss)/income	5	(25,231)	21,148
Net gains on disposal of associates held by consolidated structured entities	6	160,851	—
Other operating income		52,348	4,487
Total operating income		1,694,506	1,647,897
Interest expenses	7	(192,801)	(167,731)
Staff costs (including directors and supervisors' emoluments)	8	(125,519)	(175,737)
Operating lease payments		(11,661)	(9,336)
Depreciation and amortisation		(8,106)	(9,115)
Change in net assets attributable to other beneficiaries of consolidated structured entities		(19,754)	1,831
Tax and surcharges		(12,978)	(14,559)
Other operating expenses		(73,330)	(90,695)
Auditor's remuneration		(1,792)	(2,358)
Loan impairment charges and other credit risk provision	9	(220,822)	(199,922)
Impairment losses on other assets	10	(33,093)	(28,536)
Total operating expenses		(699,856)	(696,158)

		Year ended 31 December	
	<i>Note</i>	2018	2017
		<i>(RMB in thousands)</i>	
Share of profit of investments accounted for using the equity method		<u>132,197</u>	<u>167,675</u>
Operating profit before income tax		1,126,847	1,119,414
Income tax expense	11	<u>(254,599)</u>	<u>(224,609)</u>
Net profit attributable to shareholders of the Company		<u>872,248</u>	<u>894,805</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on available-for-sale financial assets		N/A	(19,914)
Share of other comprehensive income from investments accounted for using the equity method		6,050	(6,838)
Income tax relating to components of other comprehensive income		<u>—</u>	<u>4,978</u>
Total other comprehensive income, net of tax		<u>6,050</u>	<u>(21,774)</u>
Total comprehensive income attributable to shareholders of the Company		<u>878,298</u>	<u>873,031</u>
Basic and diluted earnings per share attributable to the shareholders of the Company			
<i>(in RMB yuan)</i>	12	<u>0.34</u>	<u>0.44</u>
Total comprehensive income for the year attributable to shareholder of the company arises from:			
Continuing operations:		878,298	873,031
Discontinued operations:		<u>—</u>	<u>—</u>
		<u>878,298</u>	<u>873,031</u>

12.2 Consolidated Statements of Financial Position

		31 December	
	<i>Note</i>	2018	2017
		<i>(RMB in thousands)</i>	
ASSETS			
Non-current assets			
Property, plant and equipment		130,128	120,092
Intangible assets		5,701	4,617
Investments in associates	13	2,108,781	1,902,034
Available-for-sale financial assets	14	N/A	636,221
Financial assets at fair value through profit or loss	19	1,129,884	N/A
Loans to customers	15	3,249,109	3,196,960
Financial investments-amortized cost	16	32,761	N/A
Investments classified as loans and receivables	17	N/A	223,511
Advance payments		160,990	18,993
Deferred income tax assets		98,256	74,708
Other non-current assets		362,569	348,087
Total non-current assets		7,278,179	6,525,223
Current assets			
Cash and bank balance	18	1,081,254	1,172,808
Financial assets at fair value through profit or loss	19	448,987	485,225
Financial assets purchased under resale agreements		95,100	951,400
Loans to customers	15	3,907,644	2,985,472
Financial investments-amortized cost	16	88,714	N/A
Investments classified as loans and receivables	17	N/A	20,479
Trustee's remuneration receivable		251,825	314,999
Interest receivable		N/A	58,864
Other current assets		460,049	387,577
Total current assets		6,333,573	6,376,824
Total assets		13,611,752	12,902,047

		31 December	
	<i>Note</i>	2018	2017
		<i>(RMB in thousands)</i>	
Equity and liabilities			
Share capital	20	2,588,250	2,588,250
Capital reserve	20	2,231,139	2,215,637
Statutory surplus reserve		767,319	688,876
Statutory general reserve		756,073	718,772
Other reserves		(1,301)	29,449
Retained earnings		3,199,212	2,906,556
Total equity		9,540,692	9,147,540
Liabilities			
Non-current liabilities			
Salary and welfare payable		62,697	44,974
Net assets attributable to other beneficiaries of consolidated structured entities		1,735,269	1,204,744
Total non-current liabilities		1,797,966	1,249,718
Current liabilities			
Short-term borrowings		450,000	328,000
Salary and welfare payable		18,738	37,046
Net assets attributable to other beneficiaries of consolidated structured entities		790,494	1,482,253
Income tax payable		188,854	178,863
Dividend payable		–	4,048
Other current liabilities		825,008	474,579
Total current liabilities		2,273,094	2,504,789
Total liabilities		4,071,060	3,754,507
Total equity and liabilities		13,611,752	12,902,047

13. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

General

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

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

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

1 Principal Accounting Policies

Basis of preparation

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

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

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

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

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

Except IFRS 9, amendments to IFRSs effective for the financial period ended 31 December 2018 have no material impact on the Group's financial statements.

IFRS 9

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

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

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

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

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

(a) Classification and measurement of financial instruments

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

	31 December 2017	Reclassification	Remeasurement	Expected credit loss	1 January 2018
Financial assets					
Cash and bank balance	1,172,808	–	–	–	1,172,808
Financial assets at fair value through profit or loss (“FVPL”)	485,225	692,773	197	–	1,178,195
Financial assets purchased under resale agreements	951,400	–	–	–	951,400
Loans to customers	6,182,432	28,124	–	(13,726)	6,196,830
Financial investments-amortized cost	N/A	194,600	–	54	194,654
Investments classified as loans and receivables	243,990	(243,990)	–	–	–
Available-for-sale financial assets	636,221	(636,221)	–	–	–
Other financial assets	1,109,527	(35,286)	–	(41,476)	1,032,765
Subtotal	<u>10,781,603</u>	<u>–</u>	<u>197</u>	<u>(55,148)</u>	<u>10,726,652</u>
Non-financial assets					
Investments accounted for using the equity method	1,902,034	–	(19,406)	–	1,882,628
Deferred income tax assets	74,708	–	(488)	11,061	85,281
Other non-financial assets	143,702	–	–	–	143,702
Subtotal	<u>2,120,444</u>	<u>–</u>	<u>(19,894)</u>	<u>11,061</u>	<u>2,111,611</u>
Total assets	<u><u>12,902,047</u></u>	<u><u>–</u></u>	<u><u>(19,697)</u></u>	<u><u>(44,087)</u></u>	<u><u>12,838,263</u></u>

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

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

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

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

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	Expected credit loss	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash and bank balance					
Opening balance under IAS 39 and closing balance under IFRS 9	1,172,808				1,172,808
Financial assets purchased under resale agreements					
Opening balance under IAS 39 and closing balance under IFRS 9	951,400				951,400

		IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	Expected credit loss	IFRS 9 carrying amount 1 January 2018
	Ref					
Loans to customers						
Opening balance under IAS 39		6,182,432				
Addition: from other financial assets	(C)		28,124			
Remeasurement: ECL allowance					(13,726)	
Closing balance under IFRS 9						6,196,830
Investments classified as loans and receivables						
Opening balance under IAS 39		243,990				
Subtraction: To Financial investments-amortized cost (IFRS 9)	(C)		(189,110)			
Subtraction: To fair value through profit or loss(FVPL) (IFRS 9)	(A)		(54,880)			
Closing balance under IFRS 9						
Financial investments-amortized cost						
Opening balance under IAS 39		–				
Addition: from Investments classified as loans and receivables	(C)		189,110			
Remeasurement: ECL allowance					54	
Addition: from other financial assets	(C)		5,490			
Closing balance under IFRS 9						194,654
Other financial assets						
Opening balance under IAS 39		1,109,527				
Subtraction: To Loan	(C)		(28,124)			
Subtraction: To Financial investment-amortized cost	(C)		(5,490)			
Subtraction: To fair value through profit or loss (FVPL) (IFRS 9)	(A)		(1,672)			
Remeasurement :ECL allowance					(41,476)	
Closing balance under IFRS 9						1,032,765
Total financial assets measured at amortised cost		9,660,157	(56,552)		(55,148)	9,548,457

	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	Expected credit loss	IFRS 9 carrying amount 1 January 2018
Fair value through profit or loss (FVPL)						
Opening balance under IAS 39		485,225				
Addition: from Investments classified as loans and receivables	(A)		54,880	197		
Addition: from Available-for- sale financial assets	(B)		636,221			
Addition: from other financial assets	(C)		1,672			
Closing balance under IFRS 9						1,178,195
Total financial assets measured at FVPL		485,225	692,773	197		1,178,195
Fair value through other comprehensive income (FVOCI)						
Available-for-sale financial assets		636,221				
Subtraction: To FVPL (IFRS 9)	(B)		(636,221)			
Closing balance under IFRS 9						
Total fair value through other comprehensive income (FVOCI)		636,221	(636,221)			-

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

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

(A) Debt instruments

The Group holds a portfolio of debt instruments that failed to meet the ‘solely payments of principal and interest’ (SPPI) requirement for amortised cost classification under IFRS 9. As a result, these instruments, which amounted to RMB56,552 thousand, were classified as financial assets measured at FVPL from the date of initial application.

(B) Equity instruments

The Group has elected to irrevocably designate equity investments of RMB636,211 thousand which previously classified as available-for-sale financial assets to financial assets at FVPL as permitted under IFRS 9.

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

In addition to the above, the debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were ‘retired’, with no change to their measurement basis.

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

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

Measurement category	Loan loss allowance under IAS 39/ Provision under IAS 37	Reclassification	Remeasurement	Expected credit loss	Loan loss allowance under IFRS 9
Amortised cost					
Loans to customers	398,760	-	-	13,726	412,486
Financial investments-amortized cost	-	15,187	-	(54)	15,133
Investments classified as loans and receivables	16,306	(16,306)	-	-	-
Other financial assets	3,129	-	-	41,476	44,605
Total	418,195	(1,119)	-	55,148	472,224

(b) New standards and interpretations not yet adopted

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

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

IFRIC 23

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

Amendments to IFRS 3, IFRS11, ISA 23

The following improvements were finalised in December 2017:

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

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB2,445 thousand. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group has reviewed its operating lease and is expecting no significant impact from the adoption of the new standard on 1 January 2018.

Amendments to IFRS 9

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

Amendments to IFRS 10 and IAS 28

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

The adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group’s operating results, financial position or other comprehensive income.

IFRS 17

The Company is still assessing the impact of IFRS 17.

2 Fee and Commission Income

	Year ended 31 December	
	2018	2017
Fee and commission income		
Trustee’s remuneration	888,535	1,125,510
Others	2,766	4,261
Total	891,301	1,129,771

3 *Interest Income*

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

- (i) The amount represents the interest received in respect of contribution to the Trust Industry Protection Fund in connection with financing trust schemes.

4 *Net Changes in Fair Value on Financial Assets at Fair Value Through Profit or Loss*

	Year ended 31 December	
	2018	2017
Net changes in fair value on financial assets at fair value through profit or loss from:		
Listed shares	4,921	(33,066)
Mutual funds	(61,487)	(3,760)
Other	24,292	38,619
	<u>(32,274)</u>	<u>1,793</u>
Total	<u>(32,274)</u>	<u>1,793</u>

5 *Investment (Loss)/Income*

	Year ended 31 December	
	2018	2017
Dividends income from:		
Financial assets at fair value through profit or loss	5,911	N/A
Available-for-sale equity investments	N/A	332
Net realised (losses)/gains from:		
Financial assets at fair value through profit or loss	(31,142)	5,933
Available-for-sale financial assets	N/A	14,883
	<u> </u>	<u> </u>
Total	<u>(25,231)</u>	<u>21,148</u>

6 *Net Gains on Disposal of Associates Held by Consolidated Structured Entities*

	Year ended 31 December	
	2018	2017
Shanghai Ruize Investment Co., Ltd. ("Shanghai Ruize") (i)	155,357	—
Tailong Health Industry Investment Company Limited("Tailong Health") (ii)	5,494	—
	<u> </u>	<u> </u>
Total	<u>160,851</u>	<u>—</u>

- (i) In June 2018, the Group disposed of all its equity interest in Shanghai Ruize at a price of RMB199,000 thousand, resulting in a gain on disposal of RMB155,357 thousand.
- (ii) In March 2018, the Group disposed of 13.95% of its equity interest in Tailong Health at a price of RMB33,394 thousand, resulting in a gain on disposal of RMB5,494 thousand.

7 *Interest Expense*

	Year ended 31 December	
	2018	2017
Interest accrued on borrowings from China		
Trust Protection Fund Co., Ltd.	53,259	16,417
Interest paid for inter-bank borrowings	408	–
Third-party beneficiaries' interests (i)	139,134	151,314
	<u>139,134</u>	<u>151,314</u>
Total	<u>192,801</u>	<u>167,731</u>

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

8 *Staff Costs (Including Directors and Supervisors' Emoluments)*

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

9 *Loan Impairment Charges and Other Credit Risk Provision*

	Year ended 31 December	
	2018	2017
Loans to customers	178,092	187,303
Financial investments-amortized cost	10,709	N/A
Investments classified as loans and receivables	N/A	12,619
Trustee's remuneration receivable	(1,612)	–
Others	33,633	–
	<u>33,633</u>	<u>–</u>
Total	<u>220,822</u>	<u>199,922</u>

10 Impairment Losses on Other Assets

	Year ended 31 December	
	2018	2017
Available-for-sale financial assets	N/A	28,536
Art investment	25,426	–
Investments accounted for using the equity method	7,667	–
	<u> </u>	<u> </u>
Total	<u><u>33,093</u></u>	<u><u>28,536</u></u>

11 Income Tax Expense

	Year ended 31 December	
	2018	2017
Current income tax	267,574	275,854
Deferred income tax	(12,975)	(51,245)
	<u> </u>	<u> </u>
Total	<u><u>254,599</u></u>	<u><u>224,609</u></u>

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:

	Year ended 31 December	
	2018	2017
Profit before income tax	1,126,847	1,119,414
Tax calculated at a tax rate of 25%	281,712	279,853
Tax effect arising from income not subject to tax (i)	(45,697)	(68,387)
Tax effect of expenses that are not deductible for tax purposes (ii)	18,584	13,143
	<u> </u>	<u> </u>
Income tax expense	<u><u>254,599</u></u>	<u><u>224,609</u></u>

- (i) The income not subject to tax mainly represents the share of profit from investments accounted for using equity method.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which exceed the tax deduction limits pursuant to the relevant PRC tax rules and regulations.

12 Basic and Diluted Earnings Per Share

(a) Basic earnings per share

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

	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Company	<u>872,248</u>	<u>894,805</u>
Weighted average number of ordinary shares in issue	<u>2,588,250</u>	<u>2,038,679</u>
Basic earnings per share	<u><u>0.34</u></u>	<u><u>0.44</u></u>

(b) Diluted earnings per share

For the years ended 31 December 2017 and 2018, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

13 Investments in Associates

The amounts recognised in the balance sheet are as follows:

	31 December 2018	2017
Associates of the Company using equity method of accounting		
Fullgoal Fund Management Co., Ltd.	565,995	473,176
Dezhou Bank Co., Ltd. (“ Dezhou Bank ”)	150,010	139,152
First-Trust Fund Management Co., Ltd. (“ First-trust FMC ”)	68,833	105,642
Shandong HOWO Auto Finance Co., Ltd.	192,474	169,887
Zouping SPD Rural Bank Co., Ltd.	8,510	26,157
Taishan Property & Casualty Insurance Co., Ltd.	207,147	211,147
Shandong LuXin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership)	52,000	–
Anhui Lu Xin Equity Investment Fund Management Co., Ltd.	1,250	–
Gross amount	1,246,219	1,125,161
Less: Impairment allowance	–	–
Associates of the Company, net	1,246,219	1,125,161
Associates of the Company’s certain consolidated structured entities using equity method of accounting		
Shandong Provincial Financial Asset Management Co., Ltd. (“ Shandong AMC ”)	621,044	618,730
Tailong Health Industry Investment Company Limited (“ Tailong Health ”)	52,100	80,000
Others	33,391	78,143

	31 December	
	2018	2017
Gross amount	706,535	776,873
Less: Impairment allowance	<u>(7,667)</u>	<u>–</u>
Associates of the Company’s certain consolidated structured entities using equity method of accounting, net	<u>698,868</u>	<u>776,873</u>
Associates indirectly held by the Group through trust schemes, measured at fair value		
Shenzhen Qianhai Run Xin Investment Co., Ltd.	18,900	–
Henan Liang Ding Property Co., Ltd.	94,650	–
Liaocheng Liang Hong Property Co., Ltd.	<u>50,144</u>	<u>–</u>
Gross amount	<u>163,694</u>	<u>–</u>
Total	<u><u>2,108,781</u></u>	<u><u>1,902,034</u></u>

14 Available-For-Sale Financial Assets

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

- (i) As at 31 December 2017, listed equity shares at the fair value of RMB3,799 thousand are restricted for sale until 1 August 2018.
- (ii) These equity investments are the Company's investments in other non-listed companies without control, common control and significant influence by the Company. The Company uses the valuation techniques to determine the fair value of these equity investments.
- (iii) The amounts mainly represent the Company's investments in certain asset management products launched by securities firms in the PRC. The fair value of these investments in asset management products is determined based on the net asset value provided by the securities firms.
- (iv) In accordance with the notice "Administrative rule of Trust Industry Protection Fund" jointly issued by the CBRC and Ministry of Finance of the PRC ("MOF") on 10 December 2014 (YJF[2014]No. 50) and relevant requirements in the notice issued by the CBRC on 25 February 2015 (YJBF[2015]No. 32) concerning Detailed Procedures of Collection and Administration of Trust Industry Protection Fund, trust companies in China are required to make contributions to the Trust Industry Protection Fund ("the Fund") that was established and managed by China Trust Protection Fund Co., Ltd., a company established jointly by China Trust Association and certain trust companies in China. The amount of contributions to the Fund consists of the following components:
- 1% of the trust company's net assets at the end of proceeding financial year as each trust company's own contribution;

- 1% of total proceeds received from issuance of each trust product. For financing trust schemes, the Fund is subscribed by the borrower through the trust company; For trust products which invest in standardized financial products, the Fund is contributed by the trust company;
- For non-cash asset related trust products, the Fund is contributed by the trust company at 5% of total trustee's remuneration.

The Fund can only be utilised when the trust company has entered into restructuring, bankruptcy, liquidation or liquidity crisis due to continuous operating losses. The Fund can be invested in bank deposits, inter-bank market, government bonds, PBOC notes, financial bonds, money market funds etc.

The Company has classified its own contribution to the Fund as available-for-sale financial assets as of 31 December 2017.

The movement in allowance for impairment losses are analysed as follow:

	Listed Shares	Unlisted financial instruments	Total
Balance as of 1 January 2017	2,670	8,787	11,457
Net impairment allowance charged to profit or loss	11,416	17,120	28,536
Transfer out	<u>(2,670)</u>	<u>(8,787)</u>	<u>(11,457)</u>
Balance as of 31 December 2017	<u><u>11,416</u></u>	<u><u>17,120</u></u>	<u><u>28,536</u></u>

15 Loans to Customers

(a) Analysis of loans to customers:

	31 December	
	2018	2017
Corporate loans-at amortised cost	7,683,391	6,581,191
Interest receivable	75,340	N/A
Less: ECL allowance – Loan	(600,424)	N/A
ECL allowance – Interest receivable	(1,554)	N/A
Collectively assessed	N/A	(114,726)
Individually assessed	N/A	(284,033)
Loans to customers, net	<u>7,156,753</u>	<u>6,182,432</u>
Presented as:		
Non-current assets	3,249,109	3,196,960
Current assets	<u>3,907,644</u>	<u>2,985,472</u>
Loans to customers, net	<u>7,156,753</u>	<u>6,182,432</u>

(b) *Movements of ECL allowance*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January				
2018 (Restated)	118,331	15,904	277,593	411,828
Provision for impairment	83,940	1,744	268,634	354,318
Reversal of impairment allowances	(144,094)	(838)	(9,000)	(153,932)
Written-off	–	–	–	–
Transfers:	68,167	10,145	(78,312)	–
<i>Transfer from Stage 1 to Stage 2</i>	(10,145)	10,145		–
<i>Transfer from Stage 1 to Stage 3</i>	(1,668)	–	1,668	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	79,980	–	(79,980)	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	(5)	–	11,404	11,399
EAD, PD and LGD changes	(17,371)	(5,818)	–	(23,189)
Loss allowance as at 31 December				
2018	<u>108,968</u>	<u>21,137</u>	<u>470,319</u>	<u>600,424</u>

**Year Ended
31 December 2017
Collective Individual
impairment impairment**

Balance at beginning of the year	66,716	144,740
Net impairment allowances charged to profit or loss	<u>48,010</u>	<u>139,293</u>
Balance at end of the year	<u>114,726</u>	<u>284,033</u>

(c) *Movements of principals*

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018				
(Restated)	5,386,300	350,000	844,891	6,581,191
Additions	4,306,100	10,500	874,400	5,191,000
Repayments	(3,737,400)	(64,000)	(329,000)	(4,130,400)
Written-off	–	–	–	–
Transfers:	(350,900)	380,000	(29,100)	–
<i>Transfer from Stage 1 to Stage 2</i>	(380,000)	380,000	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(70,900)	–	70,900	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	100,000	–	(100,000)	–
Other transfers	27,400	–	14,200	41,600
Balance as at 31 December 2018	5,631,500	676,500	1,375,391	7,683,391

16 Financial Investments-Amortized Cost

(a) Analysis of financial investments-amortized cost:

	31 December 2018	2017
Financial investments-amortized cost, gross (i)	131,314	N/A
Interest receivable	4,605	N/A
Less: ECL allowance – Financial investments-amortized cost	(14,349)	N/A
Less: ECL allowance – Interest receivable	(95)	N/A
Financial investments-amortized cost, net	<u>121,475</u>	<u>N/A</u>
Presented as:		
Non-current assets	32,761	N/A
Current assets	<u>88,714</u>	<u>N/A</u>
Financial investments-amortized cost, net	<u>121,475</u>	<u>N/A</u>

- (i) Financial investments-amortized cost consist of the Company's investments in those unconsolidated trust schemes established and managed by the Company. The underlying assets of these trust schemes are loans to customers.

(b) *Movements of ECL allowance*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January				
2018 (Restated)	1,813	1,788	11,404	15,005
Provision for impairment	–	–	13,087	13,087
Reversal of impairment allowances	(2,189)	(155)	–	(2,344)
Written-off	–	–	–	–
Transfers:	1,633	(1,633)	–	–
<i>Transfer from Stage 1 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 1 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	1,633	(1,633)	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
Recoveries of loans written-off in previous years	–	–	–	–
Other transfers	5	–	(11,404)	(11,399)
EAD, PD and LGD changes	–	–	–	–
Loss allowance as at 31 December				
2018	<u>1,262</u>	<u>–</u>	<u>13,087</u>	<u>14,349</u>

(c) *Movements of principals*

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018				
(Restated)	101,567	37,530	65,200	204,297
Additions	51,400	–	–	51,400
Repayment	(40,567)	(10,930)	(30,286)	(81,783)
Written-off	–	–	–	–
Transfers:	26,600	(26,600)	–	–
<i>Transfer from Stage 1 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 1 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	26,600	(26,600)	–	–
<i>Transfer from Stage 2 to Stage 3</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Other transfers	27,400	–	(15,200)	(42,600)
Balance as at 31 December 2018	111,600	–	19,714	131,314

17 Investments Classified as Loans and Receivables

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

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

- (i) Investments classified as loans and receivables consist of the Company's investments in those unconsolidated trust schemes established and managed by the Company. The underlying assets of these trust schemes are loans to customers.

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

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

18 Cash and Bank Balance

(a) Cash and bank balance

	31 December	
	2018	2017
Cash in hand	45	62
Cash at banks	<u>1,081,209</u>	<u>1,172,746</u>
Total	<u>1,081,254</u>	<u>1,172,808</u>

(b) Cash and cash equivalents in the consolidated statements of cash flows

	31 December	
	2018	2017
Cash in hand	45	62
Cash at banks	<u>1,081,209</u>	<u>1,172,746</u>
Total	<u>1,081,254</u>	<u>1,172,808</u>

19 Financial Assets at Fair Value Through Profit or Loss

	31 December	
	2018	2017
Equity investments		
Listed shares	42,482	18,199
Mutual funds	406,505	81,246
Asset management products	133,513	–
Equity investments in unlisted entities	556,314	32,500
Investments in trust schemes	312,858	353,280
Investments in Trust Industry Protection Fund	92,109	–
Wealth management products	35,090	–
Total	<u>1,578,871</u>	<u>485,225</u>
Presented as:		
Non-current assets	1,129,884	N/A
Current assets	448,987	485,225
Financial assets at fair value through profit or loss, net	<u>1,578,871</u>	<u>485,225</u>

20 *Share Capital and Capital Reserve*

In July 2015, the Company was transformed from a limited liability company into a joint stock limited company by means of RMB1 yuan of paid-in capital in exchange for one common share. As of 31 December 2016, all shares of the Company issued were fully paid common shares, with par value of RMB1 yuan per share. In December 2017, the Company was listed on the Hong Kong Stock Exchange with 588,250,000 shares newly issued. All shares of the Company issued are fully paid common shares. The par value per share is RMB1 yuan.

	31 December	
	2018	2017
Number of shares authorized and issued (i)	<u>2,588,250</u>	<u>2,588,250</u>
	31 December	
	2018	2017
Share capital	<u>2,588,250</u>	<u>2,588,250</u>

- (i) The Company issued 588,250,000 H shares with par value of RMB1 per share at offering price of HKD4.56 (equivalent to RMB3.87) per share on 8 December 2017. The excess of RMB1,688,278 thousand over the par value, net of the relevant incremental costs of RMB88,930 thousand directly attributable to issued shares, was credited to “share premium”.

On 19 March 2018, the Company obtained “Approval from China Banking Regulatory Commission Shandong Office on the increase of the registered capital and the change of shareholding structure of Shandong International Trust Co., Ltd.”.

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

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

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

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

As of 31 December 2018, the Group's capital reserve is shown as follows:

	31 December	
	2018	2017
Share premium	<u>2,231,139</u>	<u>2,215,637</u>

21 Dividends

	Year ended 31 December	
	2018	2017
Dividend declared during the year	<u>447,766</u>	<u>254,213</u>

Under the PRC Company Law and the Company's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Company; and
- Appropriation to the statutory general reserve.

In accordance with the relevant regulations, after the Company's initial public offering, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the retained profit determined in accordance with the PRC trust regulations and (ii) the retained profit determined in accordance with IFRS.

22 Subsequent Events

22.1 Pursuant to the resolution of 2018 second extraordinary general meeting on 19 October 2018, the Company converted the capital surplus into ordinary shares in the proportion of 8 shares for every 10 shares held, which increased the total number of capital shares by 2,070,600,000 shares. On 7 December 2018, the Company obtained “Approval from China Banking Insurance Regulatory Commission Shandong Office on the change of the registered capital of Shandong International Trust Co., Ltd.”. The Company completed the conversion on 8 January 2019. After the conversion, the share capital will amount to RMB4,658,850,000. On 17 January 2019, the Company completed the registration of registered capital change.

Except for the event described above, the Group has no material events happened after 31 December 2018.

14. THE AUDIT COMMITTEE OF THE COMPANY (THE “AUDIT COMMITTEE”)

The Audit Committee has reviewed the accounting principles and conventions adopted by the Company with the senior management of the Company and the Company’s external auditors. The Audit Committee has reviewed the annual results for the year ended 31 December 2018.

15. ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 PUBLISHED ON THE HONG KONG STOCK EXCHANGE’S WEBSITE AND THE COMPANY’S WEBSITE

The announcement of annual results for the year ended 31 December 2018 is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.sitic.com.cn). The annual report for the year ended 31 December 2018 which contains all information required by the Listing Rules will be distributed to shareholders and published on the Hong Kong Stock Exchange’s website and the Company’s website in due course.

By order of the Board
Shandong International Trust Co., Ltd
Wan Zhong
Chairperson

Jinan, the People’s Republic of China, 22 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Wan Zhong and Mr. Yue Zengguang; the non-executive directors are Mr. Xiao Hua and Mr. Jin Tongshui; and the independent non-executive directors are Mr. Yen Huai-chiang, Mr. Ding Huiping and Ms. Meng Rujing.