

**LUCION**

**山東省國際信託股份有限公司**

**Shandong International Trust Co., Ltd.**

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

Stock Code: 1697



**2021**

**INTERIM REPORT**

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# COMPANY PROFILE

Shandong International Trust Co., Ltd., currently a director member of the China Trustee Association, was established as a non-banking financial institution in March 1987, with the approval of PBOC and the People's Government of Shandong Province. In December 2017, the Company was listed on the Hong Kong Stock Exchange (stock code: 1697), being the first domestic trust company listed on international capital market. In January 2019, the Company's registered capital increased to RMB4,658,850,000, and its capital strength continuously increased.

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

In the field of trust business, to facilitate the set-up of investment and financing service platform and wealth management platform, the Company formed an all-around and multi-level trust product line covering trust of industrial and commercial enterprises, infrastructure trusts, real estate trusts, securities investment trusts, integrated financial service trusts of listed companies, consumer finance, family trusts and charitable trusts. We have built a series of trust brands including "Zun Xiang" (尊享), "Xiong Xin An Xin" (雄心安心), "De Shan Qi Jia" (德善齊家), "Guo Zi Hui Nong" (國資惠農), "Zilan Culture" (茲蘭文化), "Urban Development" (城市發展), "Tian Xi Ying" (天禧盈), "Rong Yi" (融易) and "Increase in Interest of Bonds" (債券增利) leading to increasingly higher popularity and reputation.

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

The growth of the Company in recent years have been recognised and praised by different sectors in the society, and evidenced by numerous awards, such as "Most Valuable Financial Stock in the 2018 Golden Hong Kong Stocks Awards", "Best IPO Award of the Year of 2017", "Shandong Charitable Award • the Most Influential Charity", "Integrity Trust – Excellent Company Award", "Integrity Trust – Management Team Award", "Integrity Trust – Leading Innovation Award", "Best Innovative Trust Company", "Best Socially Responsible Trust Company Award", "Best Financial Service Entity Award", "Excellent Risk Control Award", "Best Corporate Governance Award", "Best Information Disclosure Award for Hong Kong Listed Companies", "Golden Amber Outstanding Trust Company Award", "2020 Best Listed Company in Greater China", "Shandong Socially Responsible Enterprise" and "Best Financial Company Award". As a state-owned enterprise based in Shandong Province, the Company received high recognition in the province for its development and was awarded with the honorary title of "Advanced Company Contributing to Financial Development of Shandong Province" by the government of Shandong Province. Also, the Company has won the "Financial Innovation Award of Shandong Province" for three consecutive years.

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

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

# BASIC CORPORATE INFORMATION

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

# BASIC CORPORATE INFORMATION

<b>Place for maintaining interim report</b>	No. 166 Jiefang Road Lixia District Jinan, Shandong Province PRC
<b>Place of listing of H Shares</b>	The Stock Exchange of Hong Kong Limited
<b>Stock name</b>	SDITC
<b>Stock code</b>	1697
<b>H Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong, PRC
<b>Legal Advisor (as to PRC laws)</b>	Fangda Partners
<b>Place of business</b>	24/F, HKRI Centre Two, HKRI Taikoo Hui 288 Shi Men Yi Road Shanghai, PRC
<b>Legal Advisor (as to Hong Kong laws)</b>	Fangda Partners
<b>Place of business</b>	26th Floor, One Exchange Square 8 Connaught Place, Central Hong Kong, PRC
<b>International Auditor</b>	SHINEWING (HK) CPA Limited
<b>Place of business</b>	<i>(Certified Public Accountants and Registered Public Interest Entity Auditor)</i> 43/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong, PRC
<b>PRC Auditor</b>	ShineWing Certified Public Accountants LLP
<b>Place of business</b>	9/F., Block A, Fu Hua Mansion 8 Chaoyangmen Beidajie Dongcheng District Beijing, PRC
<b>Name of the undersigned accountant</b>	Chan Wing Kit
<b>Principal Bank</b>	China Citic Bank Quancheng Road Sub-branch No.166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

# MAJOR FINANCIAL DATA

	As at and for the six months ended 30 June		As at and for the year ended 31 December (Audited)			
	2021	2020	2020	2019	2018	2017
Data at the end of the Reporting Period (RMB in millions)						
Total assets	<b>22,076</b>	16,068	20,684	14,572	13,612	12,902
Fee and commission income	<b>488</b>	571	1,152	1,038	891	1,130
Interest income	<b>442</b>	387	717	530	648	491
Total operating income	<b>1,010</b>	1,137	2,306	1,887	1,695	1,648
Change in net assets attributable to other beneficiaries of consolidated structured entities	<b>(27)</b>	(25)	(17)	(0.5)	(20)	2
Total operating expenses	<b>785</b>	627	1,942	1,133	700	696
Operating profit before income tax	<b>465</b>	650	733	878	1,127	1,119
Segment assets						
Proprietary business	<b>13,281</b>	14,792	19,358	13,241	12,372	11,655
Trust business	<b>8,774</b>	1,134	1,147	997	1,214	1,202
Unallocated assets <sup>(1)</sup>	<b>21</b>	142	179	334	26	45
Segment liabilities						
Proprietary business	<b>11,320</b>	5,874	10,320	4,678	3,989	3,715
Trust business	<b>172</b>	24	183	71	67	38
Unallocated liabilities <sup>(1)</sup>	<b>–</b>	101	5	13	15	2

Note:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ENVIRONMENT OVERVIEW

Since 2021, the global pandemic has continued to evolve, and the external environment has become more complex and severe. Although the global economy has been gradually recovering, the imbalance in the recovery process has become prominent and the differentiation has increased. The rebound of the pandemic in many countries has further increased the uncertainty of economic recovery. Facing the complex and severe internal and external situation, China has integrated the overall domestic and international situation, coordinated the COVID-19 pandemic prevention and control while working on economic and social development, effectively implemented macro policies, and deepened structural reform of supply chain. The economy has enjoyed a steady and sustainable recovery with positive indicators, and the main macro indicators are in a reasonable range. China has actively promoted scientific and technological self-reliance and self-improvement, intensified efforts on its reform and opening up, effectively guaranteed people's livelihood and achieved new results in terms of high-quality development.

Facing the complex and severe economic and financial situation, China's financial industry conscientiously implemented the decisions and deployments of the Party Central Committee, the State Council and regulatory departments, took the initiative, acted proactively, maintained steady growth while being innovative, strongly supported economic transformation and high-quality development, accelerated the development of green finance, effectively prevented and resolved major financial risks, and continuously improved the level of financial services, achieving new and remarkable results in various work.

Actively responding to the regulatory calls, the trust industry has continued to scale down channel business and financing business, further strengthened its support for the real economy, actively explored green trust business, and carried out the construction of trust culture in a down-to-earth manner, so as to realise the high-quality development of the industry on the basis of serving the country's economic and social development. By the end of the second quarter of 2021, the balance of trust assets managed by China's trust industry was RMB20.64 trillion, the structure of trust assets, the ways of allocation and the application of the fund trust has continued to be optimised, standardised investment has developed rapidly, the strength of investment research has continuously improved, the efforts to support the real economy has been continuously strengthened, and the business transformation has achieved certain results.

## BUSINESS OVERVIEW

As a trust company regulated by the CBIRC, the Company is permitted to conduct businesses across a number of markets, such as the real economy, capital markets and money markets. The Company adheres to the market-oriented approach, closely monitors the Chinese economy and market dynamics to identify market opportunities, and it also timely and adeptly adjusts its development strategies to proactively grow its business and achieve the "dual drivers" for the trust business and the proprietary business.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2021, facing the combination of challenges from complex and changeable macro environment, increasingly strict regulatory situation, increasingly fierce competition in the asset management market and formidable tasks of reform, SITC adhered to the general tone of striving for progress while maintaining stability, promoted the transformation with reform, so as to carry out the annual key work in an orderly manner, focused on carrying out three institutional reforms, speeded up the business transformation and development, improved the national business layout, deepened the reform of wealth management, continuously promoted the disposal of risk projects, deeply implemented the construction of trust culture, completed the formation of the “14th Five-Year Plan”, and comprehensively consolidated the foundation for high-quality development. Firstly, the Company speeded up the transformation and development, and constantly improved the level of high-quality development. The Company adhered to deepen the business of combination of equity and debt, enhanced the ability of active management, and effectively improved the profitability of trust assets; the Company established the Capital Markets Business Department, actively introduced professional talents, made comprehensive efforts in the development of the standard product business and investment business, cooperated with a number of securities firms and private equity fund companies to promote standardised investment business, vigorously expanded asset-backed securities, and helped enterprises to raise funds directly; speeded up the development of service trusts, maintained the momentum of rapid growth in family trust business, made breakthroughs in equity family trusts with independent brands, and actively carried out charitable trusts. Secondly, the Company continuously improved the layout of marketing outlets and team building, speeded up the transformation of wealth management. The Company further promoted the reform of wealth management business, set up a wealth management department, practically strengthened the construction of independent marketing system, accelerated the construction of wealth outlets and marketing teams in other places, and set up new wealth centres in places including Beijing, Shanghai, Xi’an, Dalian and Dongguan, so as to establish a national wealth network covering North China, East China, Northwest, Northeast and South China to further facilitate customers’ investment and wealth management. The Company actively carried out public welfare advocacy on promoting the protection of consumers’ rights and interests, regularly organised financial knowledge presentation activities, and continuously enhanced the effectiveness of education on investors. Thirdly, the Company accelerated the reform of the institutional mechanism and strengthened the endogenous power of transformation and development. Focusing on the “14th Five-Year Plan” of the Company, the Company learned from the advanced experience of the industry, adjusted and optimised the Company’s organisational structure, set up three major business departments of wealth management, family trust and capital market and their business headquarters, and set up departments such as the Information Technology Department and the Asset Monitoring Centre to enhance service support capacity and promote business transformation. Meanwhile, the Company implemented the reform of the mechanism of professional managers, selected and recruited deputy general managers from the public, and improved the construction of the professional manager system. The Company comprehensively promoted the reform of the salary assessment system, enhanced support for wealth management, capital markets and the original business, vigorously introduced professionals, implemented a market-oriented salary management system, stimulated employees’ entrepreneurial enthusiasm, established restriction rules and an internal accountability mechanism, so as to create a corporate atmosphere with healthy competition and steady development. Fourthly, the Company continued to increase the level of risks management, and continuously strengthened the construction of internal control and compliance. The Company officially launched the intelligent risk control system, which was independently developed and designed, making use of the indicator systems, rules and models to build an efficient, unified and reliable risk control data platform, so as to realise online calculation and independent rating of certain businesses, effectively improving the Company’s investment decision-making ability and risks management level. The Company conscientiously carried out special governance work such as “the Year of Standardised Construction and Promotion” and “the Year of Internal Control and Compliance Construction”, formulated plans for activities, conducted self-examination and evaluation, and promoted rectification and reform in a down-to-earth manner. The Company actively implemented anti-money laundering and anti-terrorist financing, and speeded up the construction of an anti-money laundering system. The Company adhered to the position of being a trustee, vigorously carried forward the trust culture, deeply carried out the construction of trust culture, and formulated and implemented the activity plan of “the Year of Trust Culture Popularisation”.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2021, the Group achieved operating income in the amount of RMB1,010.3 million, representing a year-on-year decrease of 11.1%; net profit attributable to shareholders of the Company was RMB400.9 million, representing a year-on-year decrease of 22.0%, mainly due to the decrease in fee and commission income. Meanwhile, the increase in interest expenses was partially offset by an increase in share of profit of investments accounted for using the equity method.

The Group's business segments are (i) trust business and (ii) proprietary business. Trust business is the Group's main business. As a trustee, the Group accepts entrustment of funds and/or properties from its trustor clients and manages such entrusted funds and/or properties to satisfy its trustor clients' investment and wealth management needs, as well as its counterparty clients' financing needs. The Group'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 the Group's segment income and its main components for the periods indicated:

	Six months ended 30 June			
	2021		2020	
	Amount	%	Amount	%
<i>(RMB in thousands, apart from %)</i>				
<b>Trust business</b>				
Operating income	<b>488,919</b>	<b>39.12%</b>	571,716	44.76%
Segment income	<b>488,919</b>	<b>39.12%</b>	571,716	44.76%
<b>Proprietary business</b>				
Operating income	<b>521,382</b>	<b>41.71%</b>	565,350	44.26%
Share of profit of investments accounted for using the equity method	<b>239,626</b>	<b>19.17%</b>	140,148	10.98%
Segment income	<b>761,008</b>	<b>60.88%</b>	705,498	55.24%
<b>Total</b>	<b>1,249,927</b>	<b>100.00%</b>	1,277,214	100.00%

In the first half of 2021, the income from the trust business and proprietary business of the Company accounted for 39.1% and 60.9% of the total revenue of the Group, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trust Business

In the first half of 2021, the Company actively responded to the impact of the COVID-19 pandemic, the domestic economic situation and changes in the regulatory policy environment. Faced with the pressure of shrinking trust scale under a strict regulatory environment, the Company took initiative to seek and respond to the changes, made plans to promote the adjustment and optimisation of organisational structure, enhanced the development of investment business, accelerated the pace of returning to the origin of trust, accelerated the layout of standard product business, continuously improved the network layout of wealth centres, and actively promoted the transformation of wealth management. Firstly, the Company continued to optimise the active management business model and vigorously improved the quality and increased efficiency of trust business. The Company comprehensively developed the “Equity + Debt” business, and constantly optimised the structure and income of the trust business. Secondly, the Company continued to speed up the pace of returning to the origin of trust, and constantly improved the level of R&D and independent management ability of service trusts. The Company gave full play to its leading advantages, actively expanded the source of original business assets, constantly improved the ability of asset allocation, explored and built a comprehensive family trust service platform to improve operational efficiency and service level; steadily expanded the “circle of friends” of its original business, deepened cooperation among existing business channels, speeded up the expansion of new cooperation institutions, and steadily improved the number of customers on hand. Thirdly, the Company stepped up the development of the standard product business and constantly expanded the scale of business. The Company actively embraced the capital market, set up a capital market business department, actively introduced high-end and professional talents, set up high-quality and market-oriented investment and research teams, vigorously expanded standardised business such as bonds and asset securitisation, continued to strengthen the construction of investment research system and risk control system, strengthened cooperation with financial institutions and private equity fund management companies, expanded the scope of investable assets, and proactively improved the ability to actively allocate assets. Fourthly, the Company improved the wealth management business system, reformed the assessment and incentive system, and speeded up the transformation of wealth management. The Company actively promoted the reform of wealth management business, set up a wealth management business department, stepped up the construction of wealth outlets and marketing teams in other areas, so as to establish a national wealth network covering North China, East China, Northwest, Northeast and South China to earnestly strengthen independent marketing ability and further facilitate customers’ investment and wealth management.

In the first half of 2021, both the AUM and the income from trust business recorded a year-on-year decrease, and the income from actively managed trusts in proportion of the fee and commission income of the total income from trust business maintained a steady growth. The AUM of the Company decreased from RMB232,525 million as at 30 June 2020 to RMB206,407 million as at 30 June 2021, and the total number of trusts as at the respective dates were 1,130 and 1,225, respectively. In the first half of 2021, the Company achieved income of the trust business in the amount of RMB488 million, indicating a year-on-year decrease of 14.5%. During the Reporting Period, revenue from the actively managed trusts amounted to RMB402 million, accounting for 82.4% of the fee and commission income of the total income from the trust business, indicating a year-on-year growth of 1.5 percentage points.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Classification of Trusts*

With the flexible trust arrangements under PRC laws, advantages of mixed operations under the Company's trust license and strong active management capability, the Company has been continuously developing trust products with new structures and 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 classified its trusts into administrative management trusts and actively managed trusts based on differences in the Company's roles and responsibilities regarding the management and use of trust assets. The actively managed trusts can be further subdivided into financing trusts and investment trusts.

- (1) **Financing Trusts:** Under this type of trusts, in addition to providing trust administration services for the capital end, the Company is actively involved in the ongoing management and disposal of the trust assets in the asset end, and focused on satisfying the financing needs of its counterparties. The Company's financing trusts provide flexible financial service solution for real estate development projects, infrastructure projects and other various types of enterprises.
- (2) **Investment Trusts:** The Company is responsible for or participates in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of the trust assets, and focuses on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of equity investment trusts, such as securities investment trusts, indirect investment trusts, family trusts and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients.
- (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 in, 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.

In accordance with regulatory requirements, the Company has adjusted the classification of certain trust schemes since 2020, and certain investment trusts were reclassified as financing trusts. Figures in the tables below are presented in accordance with the latest statistics.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June			
	2021		2020	
	Number	AUM	Number	AUM
	<i>(AUM: RMB in millions)</i>			
Financing trusts	164	53,244	171	70,303
Investment trusts	832	20,365	609	31,096
Administrative management trusts	229	132,798	350	131,126
<b>Total</b>	<b>1,225</b>	<b>206,407</b>	<b>1,130</b>	<b>232,525</b>

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

	Six months ended 30 June			
	2021		2020	
	Revenue	%	Revenue	%
	<i>(Revenue: RMB in millions)</i>			
Financing trusts	345	70.70	292	51.14
Investment trusts	57	11.68	170	29.77
Administrative management trusts	86	17.62	109	19.09
<b>Total</b>	<b>488</b>	<b>100.00</b>	<b>571</b>	<b>100.00</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Financing Trusts*

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

- (1) **Real Estate Trusts:** The Company's real estate trusts focus on arranging debt financing and equity financing for real estate development projects located in China which are undertaken by top Chinese real estate developers. During the Reporting Period, the Company continued to promote the shift of real estate trusts from debt financing to "equity + debt" and equity financing. Through methods such as 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 various enterprises.
- (3) **Industrial and Commercial Enterprises Trusts:** The Company's industrial and commercial enterprises trusts focus on providing various forms of investment and financing services such as industry investment funds and equity investments to satisfy their working capital needs in the general industrial and commercial sectors in the PRC.

## *Investment Trusts*

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

Based on the subject of 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (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 schemes.
- (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 in achieving goals on wealth succession through the Company's family trusts. The Company's clients may entrust funds as well as other types of properties, such as real properties, equity interests, right to claim insurance benefits and financial products, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. Due to the increasing wealth of PRC citizens and the rapid increase in number of ultra-high-net-worth individuals ("UHNWI"), family trusts became widely recognised by UHNWIs due to the advantage of family trusts in wealth succession, family affairs management, family risk management and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 30 June 2021, the Company's family trust business has reached nearly RMB20 billion in terms of stock scale, representing a year-on-year increase of 42.37%, thus continuing to secure a leading position in the industry. Since 2021, the Company further enhanced the market exploration to expand its customer base and cultivate new profit growth engines for the long-term stability of the Company; explored the all-round family trust integrated service platform, further enhancing the refined, professional and customised service capability. The Company attached great importance on innovation of family trust area, continuously exploring and implementing in equity interest family trust in 2021, and has been leading the industry in terms of research, development and innovation. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing its private wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen 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 full discretion on allocation of the trust assets. During the Reporting Period, the Company continued to exert effort on developing the customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 30 June 2021, the Company managed eight discretionary wealth management trusts, with the AUM reaching approximately RMB1.832 billion.
- (6) **Other Trusts:** In addition to the above investment trusts, the Company also established other types of investment trusts, such as charitable trusts, which are products of the Company's active performance of its corporate social responsibility. The Company's charitable trusts enhanced the branding of the Company as its business development model and to integrate the business development model with the Company's family trust business. As at 30 June 2021, the Company managed seven charitable trusts, with the AUM reaching approximately RMB75.3 million. In 2021, the "Wudi County Labour Model Zhumeng Yangfan Charitable Trust" (無棣縣勞模築夢揚帆慈善信託) established by the Company won the "Top Ten Social Responsibility Projects" (2020年度十佳社會責任項目) at the 2021 China Financial Brand Summit and Financial Corporate Social Responsibility Conference sponsored by China Banking and Insurance News (《中國銀行保險報》). Binbin Charitable Trust (彬彬慈善信託) was awarded the 14th "Best Charitable Trust Product" (誠信託•最佳慈善信託產品) by Shanghai Securities News (《上海證券報》).

## *Administrative Management Trusts*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Proprietary Business

In the first half of 2021, in order to reasonably optimise the allocation of its own funds and improve the operation standard of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the investment and loan linkage mechanism, and provided great support for the transformation and innovation of the "equity + debt" trust business. Secondly, the Company continuously improved the investment layout of the venture capital fund, and proactively supported the Shandong's regional economic development and replacement of old growth drivers with new ones to seek proprietary business transformation and development, and foster new profit growth point. Thirdly, the Company assessed the situation, further actively promoted the transformation and development of First-Trust Fund Management Co., Ltd., and optimised the layout of financial equity investment. Fourthly, with safety and liquidity being assured, short term operations such as diversified investment, efficient use of liquid funds for short-term operations such as government bonds purchased under agreements to resell, investment in monetary fund and cash management trust schemes were actively carried out to improve utilisation efficiency of domestic and overseas capital. Fifthly, the Company further strengthened exchanges and communication with financial enterprises in Hong Kong, and laid a solid foundation for overseas businesses. The Company recorded segment income of RMB761.0 million from its proprietary business in the first half of 2021, representing a year-on-year increase of 7.9%, mainly due to (i) an increase in interest income from RMB386.3 million in the first half 2020 to RMB441.9 million in the first half of 2021; (ii) an increase in investment income from RMB42.5 million in the first half 2020 to RMB170.7 million in the first half of 2021; and (iii) an increase in share of profit of investments accounted for using the equity method from RMB140.1 million in the first half of 2020 to RMB239.6 million in the first half of 2021. The interest income, investment income and share of profit of investments accounted for using the equity method are partially offset by a loss of RMB135.4 million in the first half of 2021 in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, which recorded a revenue of RMB54.4 million in the first half of 2020.

### *Allocation of Proprietary Assets*

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

In conducting its proprietary business, the Company allocates its 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 its proprietary assets. The Company manages and invests its proprietary assets according to its annual assets allocation plans, which are formulated by the management of the Company and approved by the Board of Directors. 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 its operations. The Company also invests its proprietary assets in various types of equity products, such as listed shares and mutual funds, as well as wealth management products. The Company keeps a reasonable amount of its proprietary assets in highly liquid form, such as deposits at banks and other financial institutions and government bonds purchased under agreements to resell in order to maintain the Company's liquidity and satisfy capital requirements for the expansion of its trust business.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in thousands)</i>	
<b>Investments in monetary assets</b>	<b>728,899</b>	730,299
Deposits at banks	<b>50,430</b>	47,042
Other monetary fund	<b>83,469</b>	651,807
Government bonds purchased under agreements to resell	<b>595,000</b>	31,450
<b>Securities investments</b>	<b>6,335,685</b>	6,048,721
<i>Investment in equity products</i>	<b>636,416</b>	708,842
Listed shares classified as:		
– financial assets at FVPL	<b>19,814</b>	90,395
Subtotal	<b>19,814</b>	90,395
Mutual funds classified as:		
– financial assets at FVPL	<b>616,602</b>	618,447
Subtotal	<b>616,602</b>	618,447
<i>Investment in wealth management products</i>		
Investments in our consolidated trust schemes	<b>5,423,162</b>	5,132,481
Investment in unconsolidated trust schemes classified as financial assets at FVPL	<b>144,424</b>	104,640
Asset management products	<b>131,683</b>	102,758
<b>Long-term equity investments</b>	<b>2,065,652</b>	1,932,383
Investment accounted for using the equity method	<b>1,794,317</b>	1,642,703
Investment classified as financial assets at FVPL	<b>271,335</b>	289,680
<b>Proprietary loans</b>	<b>2,815,341</b>	993,950
<b>Trust Industry Protection Fund</b>	<b>104,527</b>	100,116
<b>Total</b>	<b>12,050,104</b>	9,805,469

# MANAGEMENT DISCUSSION AND ANALYSIS

## Monetary Assets

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
<i>(RMB in thousands)</i>		
<b>Investment in monetary assets</b>		
– Deposit at banks	<b>50,430</b>	47,042
– Other monetary fund	<b>83,469</b>	651,807
– Government bonds purchased under agreements to resell	<b>595,000</b>	31,450
<b>Total</b>	<b>728,899</b>	730,299

	<b>Six months ended 30 June</b>	
	2021	2020
<i>(RMB in thousands)</i>		
<b>Interest income generated from:</b>		
– Deposit at banks	<b>3,201</b>	1,251
– Government bonds purchased under agreements to resell	<b>10,411</b>	2,425
<b>Total</b>	<b>13,612</b>	3,676

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 1.2% and 3.7% for the six months ended 30 June 2020 and for the six months ended 30 June 2021, respectively. The increase in average investment return was attributable to the increase in the average investment amount of government bonds purchased under agreements to resell in the first half of the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Securities Investments

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

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

	Six months ended 30 June 2021	Year ended 31 December 2020 (Audited)
<i>(RMB in millions, except risk category)</i>		
<b>Risk category of underlying investments</b>		
– Equity products	<b>High</b>	High
– Trust schemes	<b>Medium</b>	Medium
– Asset management products	<b>Medium</b>	Medium
<b>Average investment balance<sup>(1)</sup></b>		
– Equity products	<b>672.6</b>	677.1
– Trust schemes	<b>5,402.4</b>	5,297.7
– Asset management products	<b>117.2</b>	138.4

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 decreased by 0.7% from RMB677.1 million in 2020 to RMB672.6 million in the first half of 2021; the average balance of investments in trust schemes increased by 2.0% from RMB5,297.7 million in 2020 to RMB5,402.4 million in the first half of 2021; and the average balance of the Company's investments in asset management products decreased by 15.3% from RMB138.4 million in 2020 to RMB117.2 million in the first half of 2021.

## Long-Term Equity Investments

The Company has made strategic long-term investments in a number of financial institutions, which helped the Company to establish stronger business relationships with these financial institutions and created synergies for its business operations. The following table sets forth the major equity investments of the Company in financial institutions as at 30 June 2021, including their main businesses, the Company's proportionate equity interests in them, whether the Company held any board seat, the date of the Company's first investment, and the relevant accounting treatment of each investment.

Name	Main business	Equity interest as at		Board seat	First investment date	Accounting treatment
		30 June 2021				
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司) <sup>(1)</sup>	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method	
Sinotruk Auto Finance Co., Ltd. (重汽汽車金融有限公司) (formerly known as 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 services	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	1.16%	No	January 1999	Financial assets at FVPL	

### Note:

- (1) On 14 December 2020, the Company entered into an equity transfer agreement with Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司) to dispose of its 45% equity interests held in First-Trust Fund Management Co., Ltd.. As at the publication date of the interim results announcement of the Company, the transfer has not been completed.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in thousands)</i>	
<b>Long-term equity investments, accounted for:</b>		
– As associate using the equity method	<b>1,794,317</b>	1,642,703
– Investment categorised as financial assets at FVPL	<b>271,335</b>	289,680
<b>Total</b>	<b>2,065,652</b>	1,932,383

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
<b>Dividend income generated from:</b>		
– As associate using the equity method	<b>120,394</b>	60,197
– Investment categorised as financial assets at FVPL	<b>5,071</b>	5,417
<b>Total</b>	<b>125,465</b>	65,614

# MANAGEMENT DISCUSSION AND ANALYSIS

The average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 8.5% and 12.6% for six months ended 30 June 2020 and 30 June 2021, respectively. The increase in average return on long-term equity investments in the first half of 2021 as compared to that of the first half of 2020 was primarily due to the increase in the dividend income received from associates in the first half of 2021.

## *Proprietary Loans*

As at 31 December 2020 and 30 June 2021, the outstanding balance of the Company's proprietary loans were RMB994.0 million and RMB2,815.3 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 4.4% from RMB100.1 million as at 31 December 2020 to RMB104.5 million as at 30 June 2021.

## **FINANCIAL OVERVIEW**

### **Unaudited Interim Condensed Consolidated Statement of Comprehensive Income Analysis**

In the first half of 2021, the net profit attributable to shareholders of the Company amounted to RMB400.9 million, which decreased by RMB113.3 million as compared to the corresponding period of last year, representing a decrease of 22.0%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Results of Operations

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

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
Fee and commission income	488,446	571,351
Interest income	442,397	386,632
Net changes in fair value on financial assets at FVPL and investments in associates measured at fair value	(135,419)	54,434
Investment income	170,696	42,520
Net gains on disposal of investments in associates	41,196	54,882
Other operating income	2,985	27,247
<b>Total operating income</b>	<b>1,010,301</b>	<b>1,137,066</b>
Interest expenses	(300,498)	(171,259)
Staff costs (including directors and supervisors' emoluments)	(74,673)	(78,986)
Operating lease payments	(4,363)	(4,198)
Depreciation and amortisation	(8,247)	(6,707)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(26,683)	(25,089)
Tax and surcharges	(8,050)	(8,017)
Impairment losses on financial assets, net of reversal	(335,745)	(312,580)
Impairment losses on other assets	–	(747)
Other operating expenses	(26,345)	(19,572)
<b>Total operating expenses</b>	<b>(784,604)</b>	<b>(627,155)</b>
Share of profit of investments accounted for using the equity method	239,626	140,148
<b>Profit before income tax</b>	<b>465,323</b>	<b>650,059</b>
Income tax expense	(64,381)	(135,791)
<b>Net profit attributable to shareholders of the Company</b>	<b>400,942</b>	<b>514,268</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Total Operating Income

### *Fee and Commission Income*

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
<i>(RMB in thousands)</i>		
<b>Fee and commission income:</b>		
Trustee's remuneration	<b>488,446</b>	571,083
Others	–	268
<b>Total</b>	<b>488,446</b>	571,351

The Group's fee and commission income in the first half of 2021 was RMB488.4 million, representing a decrease of 14.5% as compared to RMB571.4 million in the first half of 2020. Such decrease was primarily due to a decrease in the Group's trustee's remuneration, which was caused by a decrease in AUM.

### *Interest Income*

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
<i>(RMB in thousands)</i>		
<b>Interest income from:</b>		
Cash and bank balances	<b>3,201</b>	1,251
Loans to customers	<b>427,610</b>	377,572
Financial investments – amortised cost	<b>112</b>	2,679
Financial assets purchased under resale agreements	<b>10,411</b>	2,425
Contribution to Trust Industry Protection Fund	<b>1,063</b>	2,705
<b>Total</b>	<b>442,397</b>	386,632

The Group's interest income in the first half of 2021 was RMB442.4 million, representing an increase of 14.4% as compared to the RMB386.6 million in the first half of 2020. Such increase was primarily due to an increase in the size of grant of daily average loans in the consolidated structured entities which resulted in an increase in interest income recorded by the Group in the first half of 2021, and the Group's interest income from loans to customers increased by 13.3% from RMB377.6 million in the first half of 2020 to RMB427.6 million in the first half of 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Net changes in fair value on financial assets at FVPL and investments in associates measured at fair value recorded a gain of RMB54.4 million in the first half of 2020 and a loss of RMB135.4 million in the first half of 2021, primarily due to the Group's disposal of financial assets at FVPL, and the income recognised in the previous years shall be transferred to the investment income.

## *Investment Income*

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

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
<b>Dividends income from:</b>		
Financial assets at FVPL	5,171	6,493
<b>Net realised gains from disposal of:</b>		
Financial assets at FVPL	165,525	36,027
<b>Total</b>	<b>170,696</b>	42,520

The Group's investment income in the first half of 2021 was RMB170.7 million, representing an increase of RMB128.2 million as compared to RMB42.5 million in the first half of 2020. Such increase was primarily due to the gains generated by the disposal of listed shares and mutual funds of the Group in the first half of 2021.

## 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 trust schemes (after offsetting the impairment losses attributable to such third-party beneficiaries).

The Group's interest expenses in the first half of 2021 were RMB300.5 million, which increased by 75.5% as compared to RMB171.3 million in the first half of 2020, primarily due to an increase in expected returns attributable to third-party beneficiaries of the Group's consolidated financing trust schemes (after offsetting the impairment losses attributable to such third-party beneficiaries) and interest paid to China Trust Protection Fund Co., Ltd.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Staff Costs (including Directors and Supervisors' Emoluments)*

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<i>(RMB in thousands)</i>	
Salaries and bonuses	<b>62,858</b>	70,948
Pension costs (defined contribution plans)	<b>3,499</b>	523
Housing funds	<b>3,307</b>	2,875
Labour union fee and staff education expenses	<b>1,527</b>	1,677
Other social security and benefit costs	<b>3,482</b>	2,963
<b>Total</b>	<b>74,673</b>	78,986

The Company's staff costs in the first half of 2021 were RMB74.7 million, which decreased by 5.5% as compared to RMB79.0 million in the first half of 2020, primarily due to a decrease in salaries and bonuses.

## *Impairment Losses on Financial Assets, Net of Reversal*

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<i>(RMB in thousands)</i>	
Loans to customers	<b>346,434</b>	284,704
Financial investments – amortised cost	<b>(1,312)</b>	33,952
Trustee's remuneration receivable	<b>(1,534)</b>	(1,931)
Others	<b>(7,843)</b>	(4,145)
<b>Total</b>	<b>335,745</b>	312,580

Impairment losses on financial assets, net of reversal of the Group increased by 7.4% from RMB312.6 million in the first half of 2020 to RMB335.7 million in the first half of 2021, which was primarily due to the provision for asset impairment made by the Group based on the principle of prudent nature, caused by the strained liquidity of customers loans in stages granted by the Group, which was resulted from the influences of macro environment, industry environment and credit environment, together with several rounds of impact of the pandemic in the first half of 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Share of Profit of Investments Accounted for Using the Equity Method*

The Group's share of profit of investments accounted for using the equity method increased by 71.0% from RMB140.1 million in the first half of 2020 to RMB239.6 million in the first half of 2021, primarily due to the increase in the net profit of certain investees.

## *Profit before Income Tax and Operating Margin*

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

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
Profit before income tax	465,323	650,059
Operating margin <sup>(1)</sup>	46.1%	57.2%

*Note:*

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

As a result of the foregoing, the Group's profit before income tax decreased by 28.4% from RMB650.1 million in the first half of 2020 to RMB465.3 million in the first half of 2021, and the Group's operating margin decreased from 57.2% in the first half of 2020 to 46.1% in the first half of 2021.

## *Income Tax Expense*

The Group's income tax expense decreased by 52.6% from RMB135.8 million in the first half of 2020 to RMB64.4 million in the first half of 2021 primarily due to the decrease in the Group's profit before income tax in the first half of 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<i>(RMB in thousands)</i>	
Net profit attributable to shareholders of the Company	<b>400,942</b>	514,268
Net profit margin <sup>(1)</sup>	<b>39.7%</b>	45.2%

*Note:*

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

As a result of the foregoing, the net profit attributable to the shareholders of the Company decreased by 22.0% from RMB514.3 million in the first half of 2020 to RMB400.9 million in the first half of 2021. The Group's net profit margin decreased from 45.2% in the first half of 2020 to 39.7% in the first half of 2021.

## 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:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<i>(RMB in thousands)</i>	
<b>Trust business:</b>		
Operating income	<b>488,919</b>	571,716
Segment income	<b>488,919</b>	571,716
<b>Proprietary business:</b>		
Operating income	<b>521,382</b>	565,350
Share of profit of investments accounted for using the equity method	<b>239,626</b>	140,148
Segment income	<b>761,008</b>	705,498

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
Trust business	<b>(111,678)</b>	(112,129)
Proprietary business	<b>(672,926)</b>	(515,026)
<b>Total operating expenses</b>	<b>(784,604)</b>	(627,155)

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

	Six months ended 30 June	
	2021	2020
	<i>(RMB in thousands)</i>	
Trust business	<b>377,241</b>	459,587
Proprietary business	<b>88,082</b>	190,472
<b>Total profit before income tax</b>	<b>465,323</b>	650,059

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

	Six months ended 30 June	
	2021	2020
Trust business	<b>77.2%</b>	80.4%
Proprietary business	<b>11.6%</b>	27.0%

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trust Business

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

The segment profit before income tax for the Group's trust business decreased by 17.9% from RMB459.6 million in the first half of 2020 to RMB377.2 million in the first half of 2021, primarily due to a decrease of 14.5% in the segment income from the trust business from RMB571.7 million in the first half of 2020 to RMB488.9 million in the first half of 2021.

The decrease in the segment income from the trust business was mainly due to a decrease in the Group's fee and commission income from RMB571.4 million in the first half of 2020 to RMB488.4 million in the first half of 2021.

The segment operating expenses from the trust business remained stable as compared to the same period of the previous year.

As a result of the foregoing, the segment margin of the trust business decreased from 80.4% in the first half of 2020 to 77.2% in the first half of 2021.

## Proprietary Business

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

# MANAGEMENT DISCUSSION AND ANALYSIS

The segment profit before income tax for the Group's proprietary business decreased from RMB190.5 million in the first half of 2020 to RMB88.1 million in the first half of 2021, primarily due to an increase of 30.7% in the segment operating expenses from the proprietary business from RMB515.0 million in the first half of 2020 to RMB672.9 million in the first half of 2021, partly offset by the increase in segment income from the proprietary business by 7.9% from RMB705.5 million in the first half of 2020 to RMB761.0 million in the first half of 2021.

- (1) The increase in segment operating expenses from the proprietary business was mainly due to an increase in interest expenses from RMB171.3 million in the first half of 2020 to RMB300.5 million in the first half of 2021.
- (2) The increase in the segment income from the proprietary business was mainly due to (i) an increase in interest income from RMB386.3 million in the first half 2020 to RMB441.9 million in the first half of 2021; (ii) an increase in investment income from RMB42.5 million in the first half 2020 to RMB170.7 million in the first half of 2021; and (iii) an increase in share of profit of investments accounted for using the equity method from RMB140.1 million in the first half of 2020 to RMB239.6 million in the first half of 2021. The interest income, investment income and share of profit of investments accounted for using the equity method are partially offset by a loss of RMB135.4 million in the first half of 2021 in net changes in fair value on financial assets at FVPL and investments in associates measured at fair value, which recorded a revenue of RMB54.4 million in the first half of 2020.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 27.0% in the first half of 2020 to 11.6% in the first half of 2021.

## Selected Interim Condensed Consolidated Financial Positions

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

### *Assets*

As at 31 December 2020 and 30 June 2021, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB20,683.8 million and RMB22,076.3 million, respectively, of which the total assets of the Company amounted to RMB10,974.5 million and RMB13,215.8 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial assets at FVPL, (iv) cash and bank balance, (v) trustee's remuneration receivable, and (vi) financial assets purchased under resale agreements. As at 30 June 2021, the above-mentioned major assets accounted for 62.2%, 14.5%, 8.6%, 6.2%, 0.7% and 2.7%, respectively, of the total assets of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Loans to Customers

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
<i>(RMB in thousands)</i>		
Corporate loans – at amortised cost	<b>15,517,538</b>	14,232,249
Interest receivable	<b>109,100</b>	72,446
Less: Expected credit losses allowance – Loans	<b>(1,899,888)</b>	(1,555,395)
Expected credit losses allowance – Interest receivable	<b>(3,667)</b>	(1,726)
<b>Loans to customers, net</b>	<b>13,723,083</b>	12,747,574
Presented as:		
Non-current assets	<b>10,423,950</b>	9,641,926
Current assets	<b>3,299,133</b>	3,105,648
<b>Loans to customers, net</b>	<b>13,723,083</b>	12,747,574

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

The Group's loans to customers were mostly granted to corporate customers during the Reporting Period.

Some of the loans granted by the Group's trust schemes to which it made proprietary investment and consolidated into the Group's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 13.4% from RMB8,657.3 million as at 31 December 2020 to RMB9,816.2 million as at 30 June 2021. 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 2020 and 30 June 2021 were RMB7,282.4 million and RMB9,134.4 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,422.6 million and RMB1,729.3 million for these impaired loans as at 31 December 2020 and 30 June 2021, respectively, representing 16.4% and 17.6% of the gross amount of those loans, respectively. The Group has provided impairment allowances as such impairment allowances were provided in accordance with the provisions under IFRS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 60.8% and 63.3% of the Group's gross loans to customers as at 31 December 2020 and 30 June 2021, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans. As at 30 June 2021, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 20.3% and 20.7% of the gross amount of the Group's loans to customers and the net amount of the Group's loans to customers, respectively.

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in thousands)</i>	
Corporate loans – at amortised cost	<b>3,143,730</b>	993,950
Interest receivable	<b>36,473</b>	–
Less: Expected credit losses allowance – Loans	<b>(328,389)</b>	–
Expected credit losses allowance – Interest receivable	<b>(911)</b>	–
<b>Loans to customers, net</b>	<b>2,850,903</b>	993,950
Presented as:		
Non-current assets	<b>1,846,240</b>	–
Current assets	<b>1,004,663</b>	993,950
<b>Loans to customers, net</b>	<b>2,850,903</b>	993,950

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Investments in Associates

The Group has made equity investments in various companies. When the Group has significant influence but no control over a target company, the Group treats such investee company as an associate and the Group 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, the associates indirectly held by the Group through consolidated structured entities measured at equity accounting, associates indirectly held by the Group through consolidated structured entities measured at fair value and the book value of investments in them as at the dates indicated:

	Equity Interest as at 30 June 2021	As at 30 June 2021	As at 31 December 2020 (Audited)
<i>(RMB in thousands)</i>			
<b>Associates of the Company, measured at equity accounting:</b>			
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	16.68%	955,856	869,824
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	9.85%	210,364	215,101
Sinotruk Auto Finance Co., Ltd. (重汽汽車金融有限公司)	10.00%	203,864	207,775
Shandong Luxin Xinjiu Kinetic Energy Conversion Venture Capital parent fund (limited partnership) (山東省魯信新舊動能轉換創投母基金合夥企業(有限合夥))	26.00%	162,680	148,739
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	2.37%	115,836	110,344
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	45.00%	71,043	52,410
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)	18.60%	72,030	35,626
Others		2,644	2,884
<b>Gross amount</b>		<b>1,794,317</b>	1,642,703
Less: Impairment allowance		—	—
<b>Subtotal</b>		<b>1,794,317</b>	1,642,703
<b>Associates indirectly held by the Group through consolidated structured entities, measured at equity accounting:</b>			
Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司)	1.50%	667,122	674,489
Others		35,585	71,859
<b>Gross amount</b>		<b>702,707</b>	746,348
Less: Impairment allowance		<b>(10,000)</b>	(10,000)
<b>Subtotal</b>		<b>692,707</b>	736,348

# MANAGEMENT DISCUSSION AND ANALYSIS

	Equity Interest as at 30 June 2021	As at 30 June 2021	As at 31 December 2020 (Audited)
<i>(RMB in thousands)</i>			
<b>Associates indirectly held by the Group through consolidated structured entities, measured at fair value:</b>			
Tengzhou Haide Park Property Co., Ltd. (滕州海德公園地產有限公司)	3.60%	151,210	151,210
Huizhou Zhengfeng Industrial Investment Co., Ltd. (惠州市正豐實業投資有限公司)	15.20%	120,000	120,000
Cangzhou Liangsheng Property Development Co., Ltd. (滄州梁生房地產開發有限公司)	39.00%	111,088	111,088
Nanyang Liangheng Real Estate Co., Ltd. (南陽梁恒置業有限公司)	49.00%	52,920	82,320
Tianjin Liangxin Property Development Co., Ltd. (天津梁信房地產開發有限公司)		—	89,047
Huangshi Liangsheng Real Estate Development Co., Ltd. (黃石梁晟房地產開發有限公司)	28.00%	91,379	94,179
Tianjin Liangshun Property Development Co., Ltd. (天津梁順房地產開發有限公司)		—	70,496
Nanyang Zhongliang Chengtong Real Estate Co., Ltd. (南陽中梁城通置業有限公司)	20.00%	49,315	49,315
Ankang Liangsheng Foundation Real Estate Co., Ltd. (安康梁盛基業置業有限公司)	20.00%	37,840	37,840
Yunnan Hongshan City Investment Development Co., Ltd. (雲南虹山城市投資發展有限公司)	15.00%	30,000	30,000
Weifang Hengru Real Estate Co., Ltd. (濰坊恒儒置業有限公司)	15.00%	15,000	15,000
Shenzhen Qianhai Run Xin Investment Co., Ltd. (深圳前海潤信投資有限公司)	30.00%	13,234	13,234
Dongying Liangsheng Real Estate Co., Ltd. (東營梁盛置業有限公司)	33.00%	43,560	—
<b>Subtotal</b>		<b>715,546</b>	863,729
<b>Total</b>		<b>3,202,570</b>	3,242,780

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Assets at FVPL

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in thousands)</i>	
Listed shares	<b>19,814</b>	90,395
Equity investments in unlisted entities	<b>286,123</b>	289,680
Asset management products	<b>131,683</b>	107,077
Mutual funds	<b>689,634</b>	618,447
Bonds	<b>518,305</b>	886,168
Investments in trust schemes	<b>144,424</b>	129,436
Investments in Trust Industry Protection Fund	<b>113,255</b>	115,253
<b>Total</b>	<b>1,903,238</b>	2,236,456

The changes in the major composition of the Group's financial assets at FVPL were due to the flexible adjustment of portfolio based on the market conditions by the Group in order to increase investment returns. Financial assets at FVPL decreased by 14.9% from RMB2,236.5 million as at 31 December 2020 to RMB1,903.2 million as at 30 June 2021, primarily due to the Group's (i) decrease of investments in bonds; (ii) decrease of investments in listed shares.

## Cash and Bank Balance

As at 31 December 2020 and 30 June 2021, the Group's cash and bank balance amounted to RMB969.5 million and RMB1,376.4 million, respectively, of which RMB698.8 million and RMB133.9 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank balance of the Group's consolidated trust schemes.

## Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable decreased by 2.3% from RMB165.9 million as at 31 December 2020 to RMB162.1 million as at 30 June 2021. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally only allowed to receive trustee's remuneration after the trust has paid its quarterly interests, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 31 July 2021, 21.5% of the trustee's remuneration receivable was recovered.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Financial Assets Purchased under Resale Agreements*

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

The Group's government bond purchased under agreements to resell increased from RMB107.1 million as at 31 December 2020 to RMB595.0 million as at 30 June 2021. These changes were due to the flexible adjustment of the business scale of the Company's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Group's government bonds purchased under agreements to resell as at 31 December 2020 and 30 June 2021, respectively.

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

Pursuant to the Measures for the Administration of Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pay to Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, Trust Industry Protection Fund will return to the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts.

The Company recorded the amounts of contribution funds it has paid on behalf of its counterparty clients as contribution to Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB289.4 million and RMB228.4 million as at 31 December 2020 and 30 June 2021, respectively, among which RMB179.5 million and RMB99.2 million were classified as non-current assets, and RMB109.9 million and RMB129.2 million were classified as current assets. Instead of collecting such amounts from the counterparty clients before liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by Trust Industry Protection Fund upon termination of the financing trusts. At the end of the Reporting Period, the Company has not encountered any difficulties in recovering such amounts from distributions made by Trust Industry Protection Fund upon termination of the Company's financing trusts.

## *Liabilities*

As at 31 December 2020 and 30 June 2021, the Group's total liabilities amounted to RMB10,508.7 million and RMB11,491.9 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the Reporting Period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 30 June 2021, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, salary and welfare payable (both current and non-current portions) and other current liabilities accounted for 76.6%, 13.9%, 1.2% and 7.3% of the Group's total liabilities, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities (both Current and Non-current Portions)*

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) decreased by 6.9% from RMB9,459.8 million as at 31 December 2020 to RMB8,804.2 million as at 30 June 2021. 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.

## *Short-term Borrowings*

As at 30 June 2021, the Group's short-term borrowings amounted to RMB1,600.0 million were interest-bearing loans from China Trust Protection Fund Co., Ltd. that fall due in February and March 2022.

## *Other Current Liabilities*

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

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts decreased from RMB196.0 million as at 31 December 2020 to RMB172.1 million as at 30 June 2021.

The Company's deferred trustee's remuneration increased from RMB13.9 million as at 31 December 2020 to RMB19.8 million as at 30 June 2021.

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 State Taxation Administration 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 schemes operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 30 June 2021, the outstanding VAT for trusts and the related surcharges amounted to RMB63.2 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Off-balance Sheet Arrangements

As at 30 June 2021, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

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

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

As at 31 December 2020 and 30 June 2021, the Company had consolidated 50 and 49 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB15,220.3 million and RMB14,420.1 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	As at 30 June 2021	As at 31 December 2020
<b>Beginning:</b>	<b>50</b>	58
Newly consolidated trust schemes	1	10
Deconsolidated trust schemes	2	18
<b>Ending:</b>	<b>49</b>	50

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in millions)</i>	
Total assets of the Company	13,215	10,975
Total assets of consolidated trust schemes	14,420	15,220
Consolidation adjustment	(5,559)	(5,511)
<b>Total assets of the Group</b>	<b>22,076</b>	20,684

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in millions)</i>	
Total liabilities of the Company	2,717	889
Total liabilities of consolidated trust schemes	14,420	15,220
Consolidation adjustment	(5,645)	(5,600)
<b>Total liabilities of the Group</b>	<b>11,492</b>	10,509

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021	As at 31 December 2020 (Audited)
	<i>(RMB in millions)</i>	
Total equity of the Company	<b>10,498</b>	10,086
Consolidation adjustment	<b>86</b>	89
<b>Total equity of the Group</b>	<b>10,584</b>	10,175

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

	<b>Six months ended 30 June</b>	
	2021	2020
	<i>(RMB in millions)</i>	
Net profit attributable to shareholders of the Company before consolidation of trust schemes	<b>405</b>	480
Impact of consolidation of trust schemes	<b>(4)</b>	34
<b>Net profit attributable to shareholders of the Group after consolidation of trust schemes</b>	<b>401</b>	514

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

## RISK MANAGEMENT

### Overview

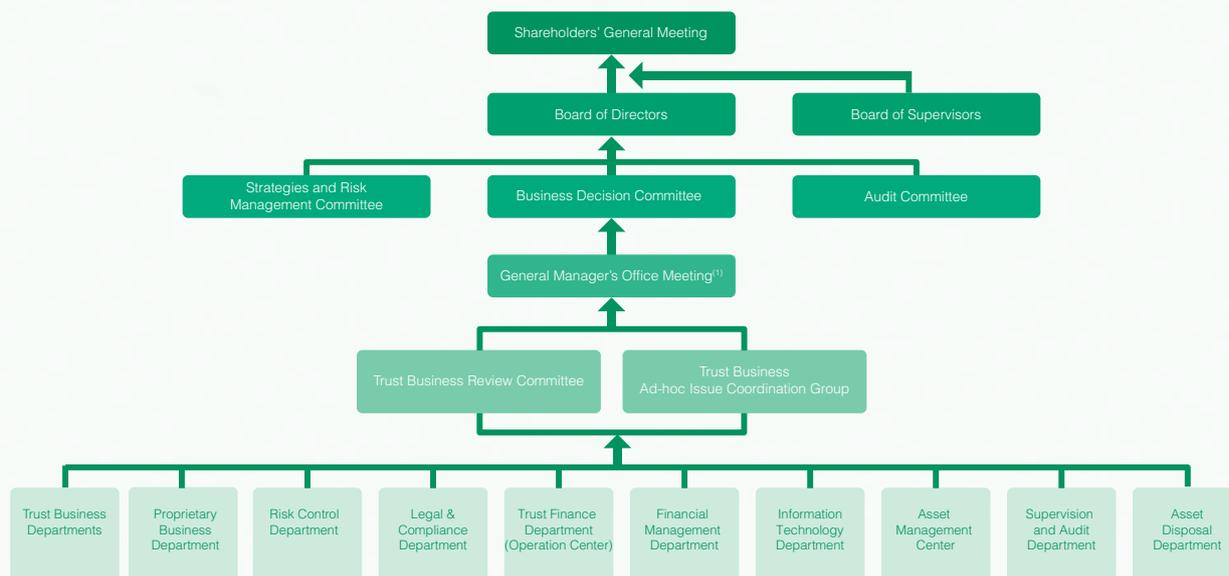
The Company has been devoted to establishing risk management and internal control systems consisting of objectives, principles, organisational framework, procedures and methods against key risks that the Company considers to be appropriate for its business operations, and the Company has developed a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

### Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) shareholders' general meeting; (2) the Board of Directors 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, Trust & Finance Department (Operation Centre), Financial Management Department, Information Technology Department, Asset Supervision Centre, Supervision and Audit Department, Asset Disposition Department, Proprietary Business Management Department and other departments. Finally, all trust business departments of the Company (including Regional Business Units) are required to assume primary risk management responsibilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

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



Note:

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

## Factors Affecting the Company's Results of Operations

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

### *General Economic and Financial Market Conditions*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

After Chinese economy has experienced rapid growth over the past 40 years, it has entered a stage of high-quality development characterised by economic structure optimisation, industry transformation and upgrading. The structural transformation of the Chinese economy and fluctuations in macroeconomic policy and financial market present challenges for the Company's business. For example, regulation of the real estate industry in China and control on local governments to incur debts may negatively affect the Company's trust business. Under the background of COVID-19 pandemic, economic slowdown and structural adjustment, 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. In 2020, the sudden COVID-19 pandemic has a huge impact on China and world economy, and many market players have been exposed to unprecedented pressure. Although China's economy has begun to recover, the pandemic may reduce the market demand for the Company's business. 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. However, there are still uncertainties as to whether the Company will be able to effectively respond to changes in general economic and financial market conditions, and the increase in the Company's innovative business may not be able to offset the decline in its traditional business, and therefore the Company's trust business will continue to be significantly affected by the general economic and financial market conditions in China.

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

## *Regulatory Environment*

The Company's results of operations, financial condition and development prospects are affected by regulatory developments in the PRC. CBIRC, the main regulatory authority for the PRC trust industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. In April 2018, the PBOC, the CBIRC, the CSRC 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. In 2020, the CBIRC made clear requirements for the pressure drop of trust companies' channel business and financing business, insisting on the goal of "de-channeling", "nesting elimination", continuing to standardise business development and guiding trust companies to accelerate business model transformation. Such policies may impose certain tightening effects on the operation of trust companies in the short term, while in the long term, they are conducive to trust companies in enhancing the active management capability and revisiting to the fundamentals of trust industry. However, the regulatory authorities may also restrict the development of certain businesses of trust companies from time to time, which may have an adverse effect on the Company's business.

# MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the regulatory environment of other financial industries in China may also indirectly impact the Company's trust business. For example, in September 2018, the CBIRC promulgated the Administrative Measures for Supervision of Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) and the Administrative Measures for Wealth Management Subsidiaries of Commercial Banks (《商業銀行理財子公司管理辦法》) in December 2018, 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 and subsidiaries of commercial banks, may be able to offer an increasing number of products and services that are similar to these offered by the Company and the Company may lose some of its advantages and face increased competition as a result.

## *Business Lines and Product Mix*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Competition*

The Company faces competition from other trust companies in China. In the course of internal development in the trust industry with the momentum characterised by differentiation, most of the trust companies are working on expansion and innovation in a proactive and effective manner. The Company competes with these trust companies in terms of client base, knowledge of the relevant industries, active management capability, innovation capability, reputation, creditworthiness, shareholders' background and support. The Company will leverage on its own advantages, shareholders' background, strategic partnership as well as R&D 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 commercial bank wealth management subsidiaries, 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, commercial bank wealth management subsidiaries, securities firms, fund management companies, private equity funds and insurance companies have diversified their assets and wealth management services. As such, the Company's ability to grow its investment trust business depends on the Company's ability to effectively compete with these financial institutions through offering a variety of trust products that are tailored to the different needs of the Company's trustor clients.

## *Interest Rate Environment*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Credit Risk Management

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

During the Reporting Period, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the CBIRC, under the leadership of the Strategies and Risk Management Committee 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.

### *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. During the Reporting Period, the self-developed intelligent risk control system of the Company has been launched officially. The intelligent risk control system takes the index system, rules and models as the engine, establishes an efficient, unified and reliable risk control data platform, realises the online calculation and independent rating of some trust businesses, and effectively improves the Company's investment decision-making ability and risk management level. Meanwhile, 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 of Directors. The Company maintains a diversified investment portfolio for the Company's proprietary business and has established detailed internal risk management policies and procedures for each type of investment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Risk Management

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

## Liquidity Risk Management

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

During the Reporting Period, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserves and financial assets that could be readily convertible into cash. As at 30 June 2021, the Group's current liabilities exceeded its current assets by RMB3,740 million. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2021. For conditions of the liquidity and financial resources of the Group, please refer to the section headed "Management Discussion and Analysis – Liquidity and Financial Resources" of this interim report.

## Compliance Risk Management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, disciplinary penalties or loss of property or reputation because the Company's business activities or those activities of the Company's employees violated the relevant laws, regulations or rules. The Company had formulated various compliance rules and policies and the Legal & Compliance Department shall be responsible for monitoring the overall compliance status of each aspects of the daily operation of the Company.

During the Reporting Period, the Legal & Compliance Department of the Company also continuously tracked the latest development of the relevant laws, regulations and policies and submitted proposals on the formulation of and amendments to the relevant internal regulations and policies to the relevant departments. Moreover, the Company organised various training programs for the employees from different departments based on the nature of their respective business activities and periodically provided updates relating to the current legal and regulatory requirements and the Company's internal policies on an ongoing basis.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operational Risk Management

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

## Reputational Risk Management

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

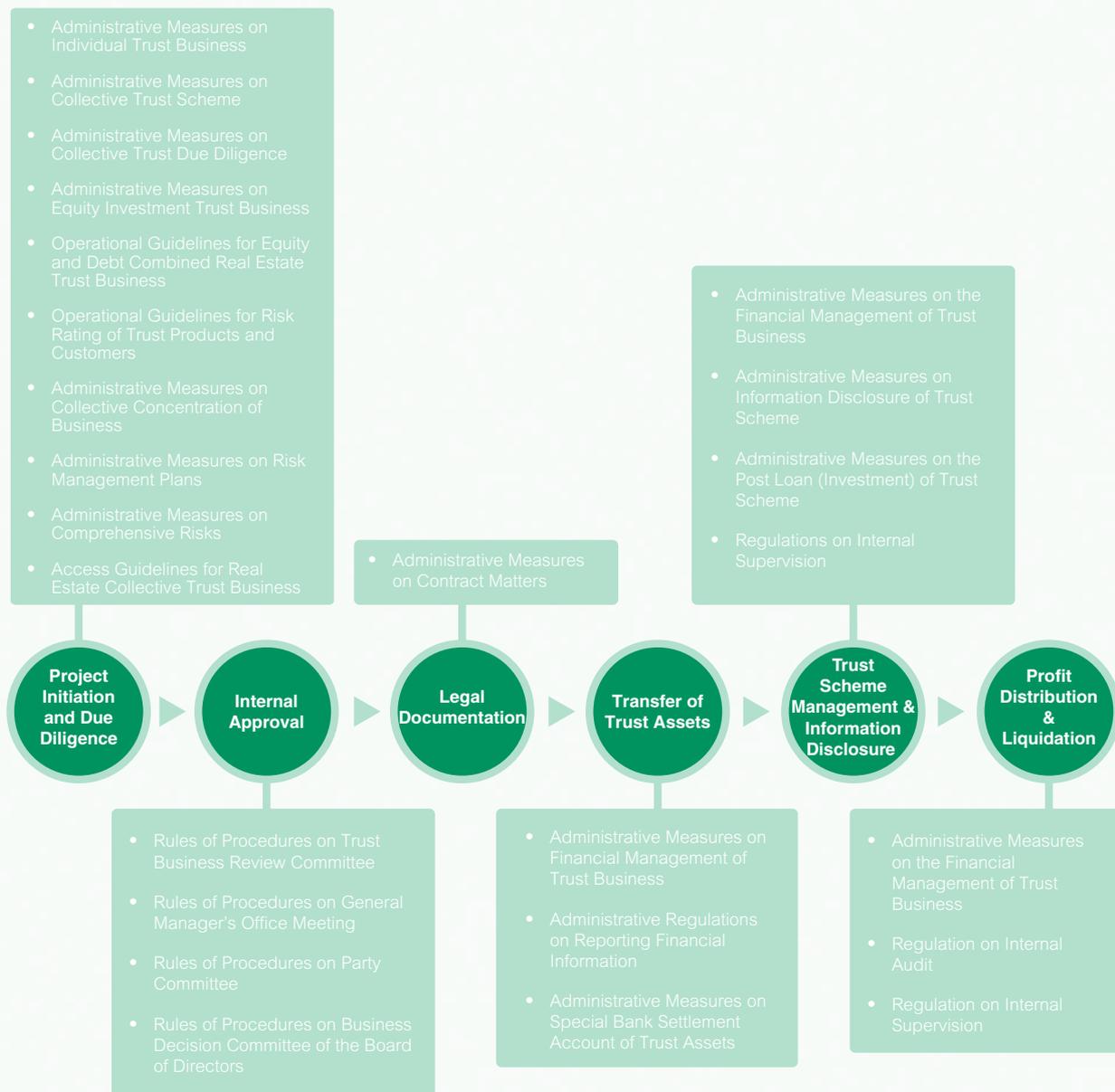
## Other Risk Management

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Risk Management Systems and Policies

The Company has put in place systems and policies in every aspect and stage of our business operation. These internal systems constitute a complete risk management system. During the Reporting Period, the Company formulated the Guidelines for the Access to Real Estate Collective Trust Business, and implemented whitelisting and access management for real estate companies, effectively improving the risk management level of the real estate trust business. The main systems and policies applicable to the Company's trust business may be illustrated as follows:



# MANAGEMENT DISCUSSION AND ANALYSIS

The main systems and policies governing the proprietary business of the Company include Rules of Procedures on Business Decision Committee of the Board of Directors (董事會業務決策委員會議事規則), Rules of Procedures on Party Committee (黨委會議事規則), Rules of Procedures on General Manager's Office Meeting (總經理辦公會議事規則), Administrative Measures on Proprietary Financial Equity Investment Business (固有資金金融股權投資業務管理辦法), Administrative Measures on Proprietary Equity Investment Business (固有資金股權投資業務管理辦法), Administrative Measures on Proprietary Securities Investment (自營證券業務管理辦法), Administrative Measures on Proprietary Loans (固有資金貸款業務管理辦法), Administrative Measures on Proprietary Guarantee Business (固有資金擔保業務管理辦法), Administrative Measures on Proprietary Financial Products Investment (自有資金投資金融產品管理辦法), Administrative Measures on Inter-bank Lending and Borrowing (自有資金同業拆借管理辦法) and Administrative Measures on Project Review and Daily Approval of Venture Capital Fund Business (創投基金業務項目評審及日常審批管理辦法).

## Anti-money Laundering Management

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

The Company established an Anti-Money Laundering Leading Work Group for anti-money management, appointed the General Manager of the Company as the chairperson of the group, and the Chief Risk Management Officer who was responsible for legal and compliance matters as the vice chairperson of the group, and the head 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 department heads of the Financial Management Department, Risk Control Department, Trust Finance Department, Compliance & Legal Department, Wealth Management Business Department and Office, Supervision and Audit Department and Human Resources Department, in order to organise and conduct anti-money laundering management work.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## CAPITAL MANAGEMENT

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

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

The Company monitors its net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the CBIRC's regulation of the Administrative Measures on Net Capital of Trust Companies (《信託公司淨資本管理辦法》) which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBIRC on a quarterly basis.

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

As at 30 June 2021, the Company's net capital was approximately RMB8.535 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.764 billion; the ratio of net capital to total risk-based capital was 226.76%, which is not lower than 100%; and the ratio of net capital to net asset was 81.30%, which is not lower than 40%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's current liabilities exceeded its current assets by RMB3,740 million, with current assets of RMB7,175 million and current liabilities of RMB10,915 million. As at 30 June 2021, the Group had cash and bank balances totaling RMB1,376 million. As at 30 June 2021, the Group's current liabilities included RMB8,249 million in respect of net assets attributable to other beneficiaries of consolidated structured entities.

In view of the net current liabilities position, the Directors have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2021. Accordingly, the unaudited interim condensed consolidated financial information has been prepared on a going concern basis. For relevant details, please refer to the section headed "Notes to the Interim Condensed Consolidated Financial Information – 2. Basis of Preparation" of this interim report.

## HUMAN RESOURCES MANAGEMENT

Guided by the target of corporate strategies for the human resources work of the Company in the first half of 2021, the Company continuously optimised the human resources mechanism, fully strengthened the development of human resources management system, established the long-term mechanism for "selecting, using, cultivating and maintaining" talents, fully motivated the entrepreneurial enthusiasm of all employees and officers and created a good talent development environment, and provided solid organisational assurance and talents support to the high-quality development of the Company.

Continuing to optimise organisational structure and optimise and adjust the organisational structure of the Company according to the Company's strategic planning and reality. Firstly, set up three business divisions: capital market, family trust and wealth management to promote business transformation and development; secondly, set up direct business headquarters and business headquarters in different places to expand the national business layout; thirdly, newly set up and integrate some middle and back offices to provide strong support for the front office and ensure the smooth development of the Company's business.

Recruiting and soliciting talents. In order to remove institutional obstacles, accelerate the pace of reform, and seek long-term development, the Company vigorously introduced outstanding talents from outside in the first half of 2021, continued to strengthen the construction of the talent team, and helped the Company's business transformation and development.

Standardising the management of selection and appointment of personnel. Keeping improving the management ability and level of the management; setting up "management sequence" and "professional sequence" to develop a dual-channel system, broaden employee promotion channels, and reasonably satisfy employees' career development demands.

Giving full play to the role of the salary assessment baton. The Company has adopted a market-oriented performance assessment, appraisal and incentive system, and the employee's compensation is linked to performance. A remuneration plan is formulated based on the operation performance, risk control and other conditions of the Company. The remuneration of employees is closely related to their performance index, risk control index, social responsibility index and other assessment and completion.

# MANAGEMENT DISCUSSION AND ANALYSIS

At the same time, strictly complying with the relevant regulations of the supervisory authority on salary management, and earnestly implementing the relevant regulations such as the salary deferred payment system, the post avoidance system and the performance-based remuneration recovery.

Realising the common growth of the Company and employees. The Company provided employees with a hierarchical training plan throughout the year, striving to improve their comprehensive quality and work skills; conducted internal training in the form of internal business salon and external professional lecturers; offered rich and diverse online courses for employees in response to the normalisation of pandemic prevention and control, and actively encouraged employees to “go out” to participate in training; took the combination of compulsory and elective courses and training credits as the starting point, constantly improved the construction of the Company’s training system, distinguished the needs of different post levels, and provided efficient, professional and comprehensive training.

Improving the welfare guarantee mechanism. We provided social insurance (including pension insurance, medical insurance, employment injury insurance, unemployment insurance, and maternity insurance) and housing provident fund for our employees in accordance with the relevant laws and regulations of the PRC.

The labour unions are organised in an orderly manner to fully protect the rights and interests of its employees and coordinate closely with management with respect to human resources matters. The Company’s operations have never been affected by any strike or significant labour dispute. The Company believes our management will continue to maintain good relationships with the labour union and employees.

As at 30 June 2020 and 30 June 2021, the Company has a total of 227 and 234 employees, respectively. The number and percentage of different employees by departments are as follows:

	30 June 2021		30 June 2020	
	Number of employees	%	Number of employees	%
Management	9	3.85	8	3.52
Trust business employees	96	41.02	95	41.85
Proprietary business employees	11	4.70	11	4.85
Wealth management employees	24	10.26	26	11.45
Risk management and audit employees	26	11.11	26	11.45
Financial and accounting employees	16	6.84	14	6.17
Operation management employees	19	8.12	30	13.22
Other staff <sup>(1)</sup>	33	14.10	17	7.49
<b>Total</b>	<b>234</b>	<b>100.00</b>	<b>227</b>	<b>100.00</b>

Note:

(1) Including employees from back-end departments such as the human resources department.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020 and 30 June 2021, the details of employees by age are as follows:

	30 June 2021		30 June 2020	
	Number of employees	%	Number of employees	%
Aged 25 and below	7	2.99	4	1.76
Aged 26–29	31	13.25	52	22.91
Aged 30–39	139	59.40	120	52.86
Aged 40 and above	57	24.36	51	22.47
<b>Total</b>	<b>234</b>	<b>100.00</b>	<b>227</b>	<b>100.00</b>

As at 30 June 2020 and 30 June 2021, the details of employees by education level are as follows:

	30 June 2021		30 June 2020	
	Number of employees	%	Number of employees	%
Doctoral degree and above	7	2.99	6	2.64
Master's degree	172	73.50	163	71.81
Bachelor's degree	48	20.51	48	21.15
Junior college and below	7	3.00	10	4.40
<b>Total</b>	<b>234</b>	<b>100.00</b>	<b>227</b>	<b>100.00</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PROSPECT

For some time to come, the global pandemic trend will remain the biggest uncertain factor, and the prospect of global economic recovery will remain highly uncertain, with increasing divergence and imbalance. Global inflation is likely to continue to rise, and the possible changes in monetary policies of major developed economies and their spillover effects deserve special attention. The “14th Five-Year Plan” period marks the first five years of a new journey of building a modern socialist country in an all-round way. China’s development is still in the period of important strategic opportunities and the driving force for development is constantly strengthening. The long-term positive fundamentals of the economy remain unchanged. With the continuous expansion of middle-income groups in China and the rapid accumulation of residents’ wealth, the wealth management needs of HNWIs are increasingly growing, and the development space of trust companies is very broad. The trust industry will actively comply with national macroeconomic policy orientation, industry regulatory requirements and the new trend of development of the mega asset management industry, give full play to the advantages of the trust system, accelerate the transformation and development, continue to increase support for the real economy, adhere to the concept of green development, improve incentive mechanism, vigorously promote trust culture, actively establish an investment research system with industry characteristics, and achieve new results in high-quality development.

Under the guidance of the “14th Five-Year Plan”, SITC will take the initiative to comply with regulatory orientation, adhere to the two-wheel drive of “standard product investment + non-standard financing”, continue to improve and strengthen traditional businesses and fully embrace the capital market. It will make every effort to build the wealth management system of “allocation orientation”, better serve the wealth management of residents, actively implement the concept of green development and put serving the real economy in a more prominent position, so as to become a respected professional institution of wealth management based on asset allocation.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## CHANGE IN SHARE CAPITAL

Category of shares	31 December 2020		Increase or decrease during the Reporting Period	30 June 2021	
	Number of shares	Percentage (%)		Number of shares	Percentage (%)
Domestic Shares	3,494,115,000	75	–	<b>3,494,115,000</b>	<b>75</b>
H Shares	1,164,735,000	25	–	<b>1,164,735,000</b>	<b>25</b>
Total	4,658,850,000	100	–	<b>4,658,850,000</b>	<b>100</b>

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2021, the Company has been notified by the following persons in relation to their interests or short positions in the shares and underlying shares of the Company which are discloseable pursuant to Divisions 2 and 3 of Part XV of the SFO, and such interests or short positions recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of Shareholder	Class of shares	Nature of interests <sup>(1)</sup>	Number of underlying shares held <sup>(2)</sup>	Approximate percentage of the class of underlying shares <sup>(2)</sup>	Approximate percentage of total share capital <sup>(2)</sup>
Shandong High-Tech Venture Capital Co., Ltd. <sup>(3)</sup>	Domestic Shares	Beneficial owner	125,000,000	6.44%	4.83%
Lucion Venture Capital Group Co., Ltd. <sup>(3)</sup>	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%
Shandong Lucion Investment Holdings Group Co., Ltd. <sup>(3)</sup>	Domestic Shares	Beneficial owner	2,242,202,580	64.17%	48.13%
	Domestic Shares	Interest in a controlled corporation	225,000,000	6.44%	4.83%

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Class of shares	Nature of interests <sup>(1)</sup>	Number of underlying shares held <sup>(2)</sup>	Approximate percentage of the class of underlying shares <sup>(2)</sup>	Approximate percentage of total share capital <sup>(2)</sup>
Shandong Provincial Finance Bureau <sup>(4)</sup>	Domestic Shares	Interest in a controlled corporation	2,467,202,580	70.61%	52.96%
CNPC Assets Management Co., Ltd. <sup>(5)</sup>	Domestic Shares	Beneficial owner	485,293,750	25.00%	18.75%
CNPC Capital Company Limited <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
China National Petroleum Corporation <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government <sup>(6)</sup>	H Shares	Interest in a controlled corporation	252,765,000	21.70%	5.43%
Jinan Finance Holding Group Co., Ltd. <sup>(6)</sup>	H Shares	Beneficial owner	252,765,000	21.70%	5.43%
Qingdao Global Wealth Center Development and Construction Co., Ltd. <sup>(7)</sup>	H Shares	Beneficial owner	232,920,000	19.99%	4.99%
Qingdao Laoshan District Finance Bureau <sup>(7)</sup>	H Shares	Interest in a controlled corporation	232,920,000	19.99%	4.99%
China Create Capital Limited	H Shares	Beneficial owner	64,737,000	10.00%	2.50%
Chang Xin Asset Management Co., Ltd. <sup>(8)</sup>	H Shares	Trustee	113,263,200	9.72%	2.43%
Shandong Development & Investment Holding Group Beneficial Co., Ltd.	H Shares	Beneficial owner	51,272,000	7.92%	1.98%
HWABAO TRUST CO., LTD	H Shares	Trustee	35,974,000	5.59%	1.39%

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## Notes:

- (1) All of the interests refer to long positions.
- (2) According to the authorisation of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, on 8 January 2019, the Company completed the issue of new shares to Shareholders by way of capitalisation of capital reserve on the basis of 8 new shares for every 10 existing Shares then held by Shareholders whose names were on the register of members of the Company on the Record Date (i.e. 19 December 2018). A total of 2,070,600,000 new shares were issued under the capitalisation issue, including 1,552,940,000 new Domestic Shares and 517,660,000 new H Shares (the "**Capitalisation Issue**"). The total Shares in issue of the Company as at 30 June 2021 were 4,658,850,000 Shares, comprising 3,494,115,000 Domestic Shares and 1,164,735,000 H Shares. The numbers and percentages of shares disclosed herein are equal to the numbers and percentages of shares reported in the form of disclosure of interests. The changes of number of Shares arising from Capitalisation Issue did not constitute reporting obligation pursuant to the SFO. Save for Shandong Provincial Finance Bureau, Shandong Lucion Investment Holding Group Co., Ltd. ("**Lucion Group**"), Qingdao Global Wealth Center Development and Construction Co., Ltd., Qingdao Laoshan District Finance Bureau and Chang Xin Asset Management Co., Ltd., the updated numbers of shares were not reflected in the form of disclosure of interests.
- (3) Shandong High-Tech Venture Capital Co., Ltd. ("**Shandong High-Tech**") is a direct wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. ("**Lucion Venture Capital**"). Lucion Venture Capital is a non-wholly owned subsidiary owned as to 69.57% by Lucion Group and therefore is deemed to be interested in all of the shares of the Company held by Shandong High-Tech, and Lucion Group is deemed to be interested in all of the shares of the Company held indirectly by Lucion Venture Capital. Shandong High-Tech intends to transfer all of its 4.83% equity interest in the Company to Lucion Group by way of non-public agreement. As at the date of this interim report, the proposed equity transfer has not been completed. For details of the proposed equity transfer, please refer to the announcement of the Company dated 3 September 2020.
- (4) Lucion Group is owned as to 90% by Shandong Provincial Finance Bureau and as to 10% by Shandong Caixin Assets Operation Co., Ltd. ("**Shandong Caixin**"), and Shandong Caixin is wholly-owned by the Shandong Provincial Finance Bureau. Shandong Provincial Finance Bureau is therefore deemed to be interested in all of the shares of the Company directly and indirectly held by Lucion Group.
- (5) CNPC Assets Management Co., Ltd. is a direct wholly-owned subsidiary of CNPC Capital Company Limited ("**CNPC Capital**") and CNPC Capital is wholly-owned by CNPC Capital Joint Stock Company with Limited Liability ("**CNPC**"). CNPC, which is an A share listed company, is held as to 77.35% by China National Petroleum Corporation. Each of CNPC Capital, CNPC and China National Petroleum Corporation are therefore deemed to be interested in all of the shares of the Company held by CNPC Assets Management.
- (6) Jinan Finance Holding Group Co., Ltd. ("**Jinan Finance Holding**") is wholly owned by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government ("**Jinan SASAC**") and Jinan SASAC is therefore deemed to be interested in all of the shares of the Company held by Jinan Finance Holding.
- (7) Qingdao Global Wealth Center Development and Construction Co., Ltd. is wholly owned by Qingdao Laoshan District Finance Bureau and Qingdao Laoshan District Finance Bureau is therefore deemed to be interested in all of the shares of the Company held by Qingdao Global Wealth Center Development and Construction Co., Ltd.
- (8) Chang Xin Asset Management Co., Ltd. holds the equity of the Company's shares as a trustee of the trust for the Chang Xin Fund-Dongfang No. 1 Single Asset Management Plan.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## PROFILE

### Directors

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

### Supervisors

As at the date of publication of this interim report, the members of the Board of Supervisors include Mr. Guo Shougui (chairperson), Mr. Hou Zhenkai, Mr. Chen Yong, Mr. Wu Chen and Ms. Wang Zhimei as shareholder representative Supervisors; Mr. Tian Zhiguo, Mr. Zuo Hui and Mr. Zhang Wenbin as employee representative Supervisors.

### Senior Management

As at the date of publication of this interim report, the members of the senior management include Mr. Fang Hao as general manager, Ms. Zhou Jianqu as vice general manager; Mr. He Chuangye as vice general manager, secretary to the Board of Directors and the joint company secretary; Mr. Wang Ping as chief financial officer; and Mr. Niu Xucheng as vice general manager.

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Changes of Directors

Mr. Yue Zengguang resigned as an executive Director due to work adjustment. The Board of Directors approved the resignation of Mr. Yue on 3 February 2021, and his resignation shall take effect upon the approval of the qualification of the new executive Director by the Shandong Office of CBIRC. Prior to this, Mr. Yue continued to perform his duties as an executive Director. Upon the recommendation of the Board of Directors, Mr. Fang Hao was elected as executive Director in the first extraordinary general meeting of the Company for the year 2021 held on 30 March 2021. The qualification of Mr. Fang Hao as executive Director was approved by the Shandong Office of CBIRC on 19 May 2021.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wan Zhong, Mr. Fang Hao, Mr. Wang Zengye, Mr. Zhao Zikun, Ms. Wang Bailing, Mr. Ding Huiping, Ms. Li Jie and Ms. Meng Rujing were re-elected or appointed as Directors of the third session of the Board of Directors at the 2020 Annual General Meeting (the “AGM”) held on 29 June 2021. Mr. Xiao Hua and Mr. Jin Tongshui will not be re-elected as non-executive Directors of the third session of the Board of Directors due to the expiration of their term of office. Mr. Yen Huai-chiang will not be re-elected as an independent non-executive Director of the third session of the Board of Directors due to the expiration of his term of office. The qualifications of Mr. Wang Zengye, Mr. Zhao Zikun and Ms. Li Jie are subject to the approval of the Shandong Office of CBIRC. Before the newly elected Directors officially take office upon fulfilling relevant procedures in accordance with laws, Mr. Xiao Hua, Mr. Jin Tongshui and Mr. Yen Huai-chiang will continue to perform their duties as Directors until the relevant Directors of the third session of the Board of Directors obtained approval of their qualifications by the Shandong Office of CBIRC, so as to ensure the structure of the Board of Directors is in compliance with relevant laws and regulations as well as the requirements of the Articles of Association.

## Changes of Supervisors

Ms. Wang Yan was appointed as an external Supervisor of the third session of the Board of Supervisors at the AGM. Ms. Wang's appointment as an external Supervisor shall be effective subject to the approval of the provisions of appointing external Supervisors in the Proposed Amendments to the Articles of Association by the Shandong Office of CBIRC, and at that time, Ms. Wang shall comply with the qualification requirements as an external Supervisor in the Articles of Association and relevant laws and regulations.

## Changes of Senior Management

Upon the consideration and approval by the Board of Directors on 3 February 2021, Mr. Yue Zengguang ceased to serve as general manager of the Company due to work adjustments. The Board of Directors engaged Mr. Fang Hao as general manager of the Company on the same day. Prior to the approval of the qualification of Mr. Fang Hao by the Shandong Office of CBIRC, Mr. Yue continued to perform his duties as general manager. The qualification of Mr. Fang Hao was approved by the Shandong Office of CBIRC on 31 March 2021.

Upon the consideration and approval by the Board of Directors on 11 August 2021, Mr. Fu Jiguang ceased to serve as the chief risk management officer of the Company due to work adjustments. The Board of Directors engaged Mr. Tian Zhiguo as the chief risk management officer of the Company on the same day. The qualification of Mr. Tian Zhiguo is subject to the approval of the Shandong Office of CBIRC. Prior to this, Mr. Fang Hao, the general manager of the Company, is temporarily in charge of the relevant work of the chief risk management officer.

The Board of Directors fully recognised the significant contributions made by Mr. Yue Zengguang and Mr. Fu Jiguang during their tenure of office in the Company, and wishes to express its gratitude to them.

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

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## CORPORATE GOVERNANCE

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

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

## CORPORATE GOVERNANCE CODE

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

## SHAREHOLDERS' GENERAL MEETING

The Company held the AGM in Qufu on 29 June 2021, at which certain resolutions were considered and approved, including the 2020 Work Report of the Board of Directors, 2020 Work Report of the Independent Directors, 2020 Work Report of the Board of Supervisors, 2020 Profit Distribution Plan, the proposed amendments to the Articles of Association and the grant of mandate to the Board of Directors to complete the approval and/or registration or filing of the Company's Articles of Association in accordance with relevant laws, regulations, requirements of relevant government departments and regulatory authorities, the proposed amendments to the Procedural Rules for the General Meeting, the Board of Directors and the Board of Supervisors.

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

## THE BOARD OF DIRECTORS

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

During the Reporting Period, the Company convened six meetings of the Board of Directors and considered and approved 53 resolutions, including 2020 Work Report of the General Manager, the Resolution on 2020 Financial Report (Draft), the Resolution on 2020 Profit Distribution Plan (Draft) and the 2020 Work Report of the Board of Directors (Draft).

During the Reporting Period, the seven committees under the Board of Directors convened a total of 43 meetings and considered and listened to 156 resolutions, including the Resolution on 2020 Annual Report and Results Announcement (Draft) and the Resolution on the 2020 Remuneration Plan for the Directors (Draft).

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

## THE BOARD OF SUPERVISORS

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

During the Reporting Period, the Board of Supervisors convened a total of four meetings and considered and approved 17 resolutions, including the 2020 Work Report of the Board of Supervisors (Draft) and the Resolution on the 2020 Remuneration Plan for the Supervisors (Draft).

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

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

# SIGNIFICANT EVENTS

The Board of Supervisors supervised the regular periodic with the focus on truthfulness, accuracy and completeness of the financial reports, reviewed the annual audit plan, interim review plan and their relevant implementation reports carefully, and guided external audit work. The Board of Supervisors closely monitored the establishment and implementation of the internal control system, the problems identified during the internal audit and the implementation of the rectification of such problems identified. The Board of Supervisors was particularly focused on a sound and organised implementation of the Company's risk management system, providing relevant opinions and suggestions on the implementation of the risk prevention and control work and improving and perfecting the risk management system. In accordance with changes in regulatory policies and the development needs of the Company, the Board of Supervisors continued to improve its operational capability and supervision level by participating in training, work exchanges and self-learning; and organised annual performance evaluation work and supervised the performance of Supervisors.

## SENIOR MANAGEMENT

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

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

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management and Internal Control Systems

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

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

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

# SIGNIFICANT EVENTS

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

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

## Internal Auditing

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

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

Under the leadership of the Audit Committee, the Supervision and Audit Department organised and coordinated the Company's annual internal audit during the Reporting Period based on the annual internal audit work plan for 2021. In addition, the Company organised the risk management and internal control assessment team as well as relevant departments to closely cooperate with the external auditors in the work of internal control audit of financial statements. The internal control audit has performed auditing for all key processes and control points related to major accounting subjects. The external auditors regularly communicated with the management on audit results.

# SIGNIFICANT EVENTS

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

- (1) The Company audited 2020 operating activities, business performance and internal management of the Company. The Company attached great importance to the implementation of internal control, development of regulation system and compliance system of the Company, as well as the enhancement of risk management and control and the ability to withstand risk. The Company actively provided advice and suggestions for the optimisation of corporate operation and management and enhancing corporate value, so as to perform obligation of internal auditors to supervise;
- (2) The Company objectively evaluated the development of 2020 internal control system of the Company, carrying out the evaluation of internal controls in terms of control environment, risk assessments, control activities, information and communication and internal supervision of the Company. The Company provided remedial measures for the possible internal control deficiencies, constantly improving and streamlining the internal control system of the Company;
- (3) The Company conducted targeted inspections on existing trust business on a regular basis and focused on the compliance of business implementation, completeness of duty performance and validity of internal supervision in terms of projects approval, due diligence review, project approval, project establishment and duration management, so as to improve standard business management; and
- (4) The Company conducted dynamic monitoring on the quality of the system data used in the trust business, supervising the processing of system data used in the trust business and the progress of the upgrade and perfection works through regular full-scope checking and random testing, with an aim to ensure the accuracy of the quality of system data for its businesses and provide great support for improving efficiency of operation and management.

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

## PROFITS AND DIVIDENDS DISTRIBUTION

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

The Company will not declare the interim dividend for the year 2021.

## CHANGE OF REGISTERED CAPITAL AND CAPITAL STRUCTURE AND CHANGE OF SHAREHOLDING OF SHAREHOLDERS

During the Reporting Period, there is no change in the Company's registered capital, capital structure or shareholding of Shareholders.

## PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION, THE PROCEDURAL RULES FOR THE BOARD OF DIRECTORS, THE PROCEDURAL RULES FOR THE BOARD OF SUPERVISORS AND THE PROCEDURAL RULES FOR THE GENERAL MEETING

In order to further improve the corporate governance structure, strengthen the decision-making capability of the Board of Directors and optimise the functions of the special committees under the Board of Directors, the Company carried out optimisation and adjustment to certain committees under the Board of Directors, particularly including: (1) the consolidation of "Human Resources and Nomination Committee" and "Remuneration Committee" into "Nomination and Remuneration Committee"; and (2) the addition of compliance management duties to the Strategies and Risk Management Committee (戰略與風控委員會), which will be renamed as "Strategies and Risk Management Committee" (戰略與風險管理委員會) (English name remains the same). According to the Provisional Measures of Equity Management of Trust Companies (《信託公司股權管理暫行辦法》), and the actual situation of the Company, the Company proposed to create new position of external Supervisors. The Company also proposed to revise the corresponding provisions in the Articles of Association in accordance with the amendment of titles of the senior management of the Company. Pursuant to the relevant requirements of the aforesaid regulatory authorities and the actual situation of the Company, the Board of Directors proposed to amend the Articles of Association in relation to (1) the establishment of the committees under the Board of Directors; (2) the establishment of the position of external Supervisors; and (3) the relevant provisions regarding the titles of senior management personnel of the Company (the "**Proposed Amendments to the Articles of Association**"). Based on the Proposed Amendments to the Articles of Association, the Board of Directors and the Board of Supervisors proposed to amend the relevant provisions in the Procedural Rules for the Board of Directors, the Procedural Rules for the General Meeting and the Procedural Rules for the Board of Supervisors, respectively.

# SIGNIFICANT EVENTS

The Proposed Amendments to the Articles of Association, the Procedural Rules for the Board of Directors, the Procedural Rules for the Board of Supervisors and the Procedural Rules for the General Meeting were approved at the AGM by means of special resolutions. The Proposed Amendments to the Articles of Association will be effective upon approval by the Shandong Office of CBIRC. The proposed amendments to the Procedural Rules for the Board of Directors, the Procedural Rules for the Board of Supervisors and the Procedural Rules for the General Meeting will be effective upon approval of the Proposed Amendments to the Articles of Association by the Shandong Office of CBIRC.

Save as disclosed above, during the Reporting Period and up to the date of this interim report, there had been no material changes to the Articles of Association. The Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange.

## **MATERIAL LEGAL PROCEEDINGS AND ARBITRATION**

As at 30 June 2021, the Company, being the plaintiff and applicant, was involved in six pending litigations or arbitration cases, of which the amount in dispute was more than RMB10 million; the value of the litigation or arbitration cases in which we were involved totalled approximately RMB1,101.70 million in total. These cases were mainly brought by the Company against the relevant counterparty clients due to their failure to repay the loans granted by the trusts of the Company.

## **MATERIAL ASSETS ACQUISITION, SALE AND MERGER**

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

## **PENALTIES IMPOSED ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

During the Reporting Period, the Company, and its Directors, Supervisors and senior management were not subject to any penalty.

## **IMPLEMENTATION OF EQUITY INCENTIVE PLAN**

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

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

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

# SIGNIFICANT EVENTS

## MAJOR CLIENTS AND SUPPLIERS

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

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

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

## MODEL CODE FOR CONDUCTING SECURITIES TRANSACTIONS

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

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

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

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

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

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

# SIGNIFICANT EVENTS

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

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

## **PROVISIONAL REPORT ON MATERIAL ISSUES**

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

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2021 and the financial statements for the six months ended 30 June 2021 prepared in accordance with IFRS.

## **AUDITOR**

The original external auditors appointed by the Company, PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, retired as the external auditors of the Company at the conclusion of the AGM and were not re-appointed. With the approval of the AGM, ShineWing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited were appointed as the external auditors of the Company, with effect from the end of the AGM and to hold office until the conclusion of the next annual general meeting of the Company.

SHINEWING (HK) CPA Limited was appointed as the auditor to review the financial information for the six months ended 30 June 2021 prepared in accordance with the IFRS. The interim financial information disclosed in this interim report has not been audited. The enclosed interim condensed consolidated financial information prepared in accordance with the IFRS has been reviewed by SHINEWING (HK) CPA Limited.

## **SUBSEQUENT EVENTS**

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

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

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

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

## INTRODUCTION

We have reviewed the interim condensed consolidated financial information of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 128, which comprise the interim condensed consolidated statement of financial position as at 30 June 2021 and the related interim condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information are not prepared, in all material respects, in accordance with IAS 34.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## OTHER MATTER

The comparative interim condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2020 and the relevant explanatory notes included in these interim condensed consolidated financial information were extracted from the interim financial information of the Group for the six-month period ended 30 June 2020 reviewed by another auditor who expressed an unmodified conclusion on the interim financial information on 25 August 2020. The comparative interim condensed consolidated statement of financial position as at 31 December 2020 were extracted from the consolidated financial statements of the Group for the year ended 31 December 2020 audited by the same auditor who expressed an unmodified opinion on those statements on 31 March 2021.

### **SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

#### **Chan Wing Kit**

Practising Certificate Number: P03224

Hong Kong

26 August 2021

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Fee and commission income	5	488,446	571,351
Interest income	6	442,397	386,632
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	7	(135,419)	54,434
Investment income	8	170,696	42,520
Net gains on disposal of investments in associates		41,196	54,882
Other operating income		2,985	27,247
<b>Total operating income</b>		<b>1,010,301</b>	<b>1,137,066</b>
Interest expenses	9	(300,498)	(171,259)
Staff costs (including directors' and supervisors' emoluments)	10	(74,673)	(78,986)
Operating lease payments		(4,363)	(4,198)
Depreciation and amortisation		(8,247)	(6,707)
Change in net assets attributable to other beneficiaries of consolidated structured entities		(26,683)	(25,089)
Tax and surcharges		(8,050)	(8,017)
Impairment losses on financial assets, net of reversal	11	(335,745)	(312,580)
Impairment losses on other assets	12	–	(747)
Other operating expenses		(26,345)	(19,572)
<b>Total operating expenses</b>		<b>(784,604)</b>	<b>(627,155)</b>
Share of profit of investments accounted for using the equity method		239,626	140,148
<b>Profit before income tax</b>		<b>465,323</b>	<b>650,059</b>
Income tax expense	13	(64,381)	(135,791)
<b>Net profit attributable to shareholders of the Company</b>		<b>400,942</b>	<b>514,268</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Share of other comprehensive income from investments accounted for using the equity method	26	8,387	985
<b>Total other comprehensive income, net of tax</b>		<b>8,387</b>	985
<b>Total comprehensive income attributable to shareholders of the Company</b>		<b>409,329</b>	515,253
<b>Basic and diluted earnings per share attributable to shareholders of the Company (in RMB yuan)</b>	14	<b>0.09</b>	0.11
<b>Total comprehensive income for the period attributable to shareholders of the Company arises from:</b>			
Continuing operations		409,329	515,253



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

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

	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		119,474	122,135
Investment properties		143,296	145,139
Right-of-use assets		266	680
Intangible assets		12,411	13,672
Investments in associates	15	3,202,570	3,242,780
Financial assets at fair value through profit or loss	21	442,458	679,519
Loans to customers	16	10,423,950	9,641,926
Financial investments-amortised cost	17	–	50,288
Advance payments		8,955	20,097
Deferred income tax assets	18	439,662	315,759
Other non-current assets	19	108,564	188,932
<b>Total non-current assets</b>		<b>14,901,606</b>	14,420,927
<b>Current assets</b>			
Cash and bank balances	20	1,376,407	969,535
Financial assets at fair value through profit or loss	21	1,460,780	1,556,937
Financial assets purchased under resale agreements	22	595,000	107,147
Loans to customers	16	3,299,133	3,105,648
Trustee's remuneration receivable		162,115	165,875
Other current assets	23	281,300	357,752
<b>Total current assets</b>		<b>7,174,735</b>	6,262,894
<b>Total assets</b>		<b>22,076,341</b>	20,683,821
<b>Equity and liabilities</b>			
Share capital	24	4,658,850	4,658,850
Capital reserve	24	143,285	143,285
Statutory surplus reserve	25	903,941	903,941
Statutory general reserve	25	892,695	892,695
Other reserves	26	652	(7,735)
Retained earnings		3,985,030	3,584,088
<b>Total equity</b>		<b>10,584,453</b>	10,175,124

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

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

	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Salary and welfare payable		21,557	24,157
Lease liabilities		123	122
Net assets attributable to other beneficiaries of consolidated structured entities	28	555,471	1,417,461
<b>Total non-current liabilities</b>		<b>577,151</b>	1,441,740
<b>Current liabilities</b>			
Short-term borrowings	29	1,600,000	100,000
Lease liabilities		261	573
Salary and welfare payable		115,399	85,876
Net assets attributable to other beneficiaries of consolidated structured entities	28	8,248,736	8,042,296
Income tax payable		113,849	31
Other current liabilities	30	836,492	838,181
<b>Total current liabilities</b>		<b>10,914,737</b>	9,066,957
<b>Total liabilities</b>		<b>11,491,888</b>	10,508,697
<b>Total equity and liabilities</b>		<b>22,076,341</b>	20,683,821

The interim financial information was approved and authorised for issue by the Board of Directors on 26 August 2021 and signed on its behalf by :

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

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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

	Share capital (Note 24)	Capital reserve (Note 24)	Statutory surplus reserve (Note 25)	Statutory general reserve (Note 25)	Other reserves (Note 26)	Retained earnings	Total
<b>(Unaudited)</b>							
<b>Balance at 1 January 2021</b>	<b>4,658,850</b>	<b>143,285</b>	<b>903,941</b>	<b>892,695</b>	<b>(7,735)</b>	<b>3,584,088</b>	<b>10,175,124</b>
Net profit for the period	-	-	-	-	-	<b>400,942</b>	<b>400,942</b>
Other comprehensive income for the period	-	-	-	-	<b>8,387</b>	-	<b>8,387</b>
<b>Total comprehensive income</b>	-	-	-	-	<b>8,387</b>	<b>400,942</b>	<b>409,329</b>
<b>Balance at 30 June 2021</b>	<b>4,658,850</b>	<b>143,285</b>	<b>903,941</b>	<b>892,695</b>	<b>652</b>	<b>3,985,030</b>	<b>10,584,453</b>
<b>Balance at 1 January 2020</b>	4,658,850	143,285	845,282	834,036	(865)	3,329,825	9,810,413
Net profit for the period	-	-	-	-	-	514,268	514,268
Other comprehensive income for the period	-	-	-	-	985	-	985
<b>Total comprehensive income</b>	-	-	-	-	985	514,268	515,253
Dividend distribution (Note 27)	-	-	-	-	-	(256,237)	(256,237)
<b>Balance at 30 June 2020</b>	4,658,850	143,285	845,282	834,036	120	3,587,856	10,069,429

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
<b>Cash flows from operating activities</b>			
Profit before income tax		465,323	650,059
Adjustments for:			
Depreciation and amortisation		8,247	6,707
Impairment losses on financial assets, net of reversal	11	335,745	312,580
Impairment losses on other assets	12	–	747
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value		135,419	(54,434)
Change in net assets attributable to other beneficiaries of consolidated structured entities		26,683	25,089
Share of profit of investments accounted for using the equity method		(239,626)	(140,148)
Net gains on disposal of investments in associates		(41,196)	(54,882)
Interest expense for financing activities		32,164	9,428
Dividend income from financial assets		(5,171)	(6,493)
Net gain on disposal of property and equipment, intangible assets and other long-term assets		–	(19)
Subtotal		717,588	748,634
Net change in operating assets and operating liabilities:			
Decrease (increase) in financial assets at fair value through profit or loss		293,684	(418,196)
Increase in loans to customers		(1,311,254)	(704,360)
Decrease (increase) in financial investments-amortised cost		50,288	(1,001,854)
Increase in financial assets purchased under resale agreements		(487,853)	(138,774)
Net (decrease) increase in net assets attributable to other investors of consolidated structured entities		(682,233)	1,241,137
Net decrease in other operating assets		118,442	159,302
Net increase (decrease) in other operating liabilities		25,234	(124,241)
Cash used in operating activities before income tax		(1,276,104)	(238,352)
Income tax paid		(21,118)	(238,028)
<b>Net cash used in operating activities</b>		<b>(1,297,222)</b>	<b>(476,380)</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
<b>Cash flows from investing activities:</b>			
Dividends received from investments accounted for using the equity method		120,394	60,197
Dividends received from financial assets		5,171	6,493
Purchase of property and equipment, intangible assets and other long-term assets		(2,139)	(2,044)
Acquisition of investment in associates		(69,560)	(124,800)
Proceeds from disposal of investments in associates		182,700	–
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		71	1
<b>Net cash generated from (used in) investing activities</b>		<b>236,637</b>	<b>(60,153)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term loans		1,600,000	700,000
Repayment of short-term loans		(100,000)	(720,000)
Interest paid		(32,164)	(9,428)
Repayment of lease liabilities		(311)	–
<b>Net cash generated from (used in) financing activities</b>		<b>1,467,525</b>	<b>(29,428)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(68)</b>	<b>467</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>406,872</b>	<b>(565,494)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>969,535</b>	<b>964,424</b>
<b>Cash and cash equivalents at end of the period</b>	20	<b>1,376,407</b>	<b>398,930</b>
<b>Net cash flows from operating activities including:</b>			
Interest received		380,374	348,375
Interest paid		554,126	143,039

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 1. GENERAL

Shandong International Trust Co., Ltd. (“Shandong Trust” or “the Company”) is a non-bank financial institution incorporated in Shandong Province, the People’s Republic of China (the “PRC”) on 10 March 1987 with the approval from People’s Bank of China (“PBOC”) and Shandong Provincial Government. The Company was transformed from a wholly state-owned company to a limited liability company in August 2002 and further transformed to a joint stock limited company in July 2015. The Company completed its public offering on 8 December 2017 and its shares were listed on The Stock Exchange of Hong Kong Limited on the same day. As at 30 June 2021, the amount of share capital was RMB4,658,850,000 with a par value of RMB1 per share.

The Company is controlled by Shandong Lucion Investment Holdings Group Co., Ltd. (“Lucion Group”), which aggregately owns 52.96% of the shares of the Company as at 30 June 2021. Lucion Group is further controlled by Shandong Provincial Department of Finance.

The Company operates under the financial service certificate No. 00606003 issued by the China Banking and Insurance Regulatory Commission (“CBIRC”) (formerly known as China Banking Regulatory Commission (“CBRC”)) in August 2015. The principal activities of the Company as approved by the CBIRC include trust business and proprietary business. Trust business is the Company’s core business. As the trustee, the Company accepts entrustment of funds and property from its trustor clients and manages such entrusted funds and property to satisfy its trustor clients’ 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 consolidated structured entities are collectively referred to as “the Group”. The information of the Company’s consolidated structured entities is provided in Note 31.

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim financial reporting” issued by the International Accounting Standards Board and the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Going concern assessment

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

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by RMB3,740 million, with current assets of RMB7,175 million and current liabilities of RMB10,915 million. As at 30 June 2021, the Group had cash and bank balances totalling RMB1,376 million. As at 30 June 2021, the Group’s current liabilities included RMB8,249 million in respect of net assets attributable to other beneficiaries of consolidated structured entities.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2. BASIS OF PREPARATION (CONTINUED)

### Going concern assessment (Continued)

The above conditions cast significant doubt regarding the Group's ability to continue as a going concern. In view of this, management has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern, and has taken the following measures to mitigate the liquidity pressure and to improve the Group's cash flows:

- a. The Group holds active discussions with the real estate development group and is closely monitoring the development progress of the underlying real estate projects to ensure that proceeds from the sale of properties are used for the repayment of the real estate loans by establishing arrangements such as jointly controlled bank accounts.
- b. The Group will continue to explore with other third-party financial institutions, where necessary, the refinancing of trust schemes established and managed by the Group.
- c. Under the "Interim Measures for the Administration of Stock Rights of Trust Companies" promulgated by the CBIRC effective from 1 March 2020 and as set out in the Articles of Associations of the Company, Lucion Group as the parent company of the Company has an obligation to offer necessary financial support upon the request of the Company in the event of liquidity difficulties.

The Group has requested, and Lucion Group has committed, to provide financial support to ensure the Group will have sufficient financial resources to meet its obligations when they fall due within the next twenty-four months from 30 June 2021 through measures including but not limited to the following:

- Acquiring investor stakes in, or the underlying assets of, trust schemes established and managed by the Group;
- Supporting investees of such trust schemes to restructure their financing arrangements; and
- Injection of share capital into or direct financing to the Company.

The Directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of not less than twelve months from 30 June 2021. They are of the opinion that, taking into account the abovementioned measures, in particular, the financial support from Lucion Group, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2021. Accordingly, the Directors of the Company are satisfied that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 3. PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial information have been prepared on the historical cost basis except for certain financial instruments and investment in associates, which are measured at fair values.

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning 1 January 2021.

Amendments to IFRS 9, IAS 39,  
IFRS 7, IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

Amendment to IFRS 16

COVID-19-Related Rent Concessions

The application of the amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial information.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are consistent with these policies applied in preparing the consolidated financial statements for the year ended 31 December 2020.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 5. FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2021	2020
Trustee's remuneration	488,446	571,083
Others	—	268
<b>Total</b>	<b>488,446</b>	<b>571,351</b>

## 6. INTEREST INCOME

	Six months ended 30 June	
	2021	2020
<b>Interest income from:</b>		
Cash and bank balances	3,201	1,251
Loans to customers	427,610	377,572
Financial investments-amortised cost	112	2,679
Financial assets purchased under resale agreements	10,411	2,425
Contribution to Trust Industry Protection Fund (i)	1,063	2,705
<b>Total</b>	<b>442,397</b>	<b>386,632</b>

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 7. NET CHANGES IN FAIR VALUE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENTS IN ASSOCIATES MEASURED AT FAIR VALUE

	Six months ended 30 June	
	2021	2020
<b>Net changes in fair value arising from:</b>		
Financial assets at fair value through profit or loss		
– Listed shares	(23,072)	14,995
– Mutual funds	(135,615)	99,013
– Trust schemes	5,556	(21,682)
– Unlisted companies	(18,345)	12,816
– Bonds and other asset management products	45,100	(1,966)
	(126,376)	103,176
Investments in associates (Note 15(c))	(9,043)	(48,742)
Total	(135,419)	54,434

## 8. INVESTMENT INCOME

	Six months ended 30 June	
	2021	2020
<b>Dividends income from:</b>		
Financial assets at fair value through profit or loss	5,171	6,493
<b>Net realised gains from disposal of:</b>		
Financial assets at fair value through profit or loss	165,525	36,027
Total	170,696	42,520

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 9. INTEREST EXPENSES

	Six months ended 30 June	
	2021	2020
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	32,164	9,348
Interest for placement from banks	–	80
Third-party beneficiaries' interests (i)	268,249	161,831
Others	85	–
<b>Total</b>	<b>300,498</b>	<b>171,259</b>

- (i) It represents expected returns attributable to third-party beneficiaries of the consolidated financing trust schemes. Third-party beneficiaries' interests in the consolidated trust schemes are accounted for as net assets attributable to other beneficiaries of consolidated structured entities in the consolidated statement of financial position (Note 31).

## 10. STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Six months ended 30 June	
	2021	2020
Salaries and bonuses	62,858	70,948
Pension costs (defined contribution plans)	3,499	523
Housing funds	3,307	2,875
Labour union fee and staff education expenses	1,527	1,677
Other social security and benefit costs	3,482	2,963
<b>Total</b>	<b>74,673</b>	<b>78,986</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 11. IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET OF REVERSAL

	Six months ended 30 June	
	2021	2020
Loans to customers	346,434	284,704
Financial investments-amortised cost	(1,312)	33,952
Trustee's remuneration receivable	(1,534)	(1,931)
Others	(7,843)	(4,145)
Total	335,745	312,580

## 12. IMPAIRMENT LOSSES ON OTHER ASSETS

	Six months ended 30 June	
	2021	2020
Investment in artwork	—	747

## 13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
Current income tax	188,284	146,241
Deferred income tax (Note 18)	(123,903)	(10,450)
Total	64,381	135,791

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 13. INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended 30 June	
	2021	2020
Profit before income tax	465,323	650,059
Tax calculated at a tax rate of 25%	116,331	162,515
Tax effect arising from income not subject to tax (i)	(52,338)	(28,234)
Tax effect of expenses that are not deductible for tax purposes	388	1,510
Income tax expense	64,381	135,791

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

## 14. BASIC AND DILUTED EARNINGS PER SHARE

### (a) Basic earnings per share

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

	Six months ended 30 June	
	2021	2020
Net profit attributable to shareholders of the Company	400,942	514,268
Weighted average number of ordinary shares in issue	4,658,850	4,658,850
Basic earnings per share	0.09	0.11

### (b) Diluted earnings per share

For the six months ended 30 June 2021 and 2020, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 15. INVESTMENTS IN ASSOCIATES

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

	30 June 2021	31 December 2020
<b>Associates of the Company, measured at equity accounting</b>		
Fullgoal Fund Management Co., Ltd. ("Fullgoal") (b)(i)	955,856	869,824
Taishan Property & Casualty Insurance Co., Ltd. (b)(ii)	210,364	215,101
Sinotruk Auto Finance Co., Ltd. (formerly known as Shandong HOWO Auto Finance Co., Ltd.) (b)(ii)	203,864	207,775
Shandon LuXin Xinjiu Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) (b)(ii)	162,680	148,739
Dezhou Bank Co., Ltd. (b)(ii)	115,836	110,344
First-Trust Fund Management Co., Ltd. (b)(ii)	71,043	52,410
Tailong Health Industry Investment Company Limited (b)(ii)	72,030	35,626
Others (b)(ii)	2,644	2,884
<b>Gross amount</b>	<b>1,794,317</b>	<b>1,642,703</b>
Less: Impairment allowance	-	-
<b>Subtotal</b>	<b>1,794,317</b>	<b>1,642,703</b>
<b>Associates indirectly held by the Group through consolidated structured entities, measured at equity accounting</b>		
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") (b)(ii)	667,122	674,489
Others (b)(ii)	35,585	71,859
<b>Gross amount</b>	<b>702,707</b>	<b>746,348</b>
Less: Impairment allowance	<b>(10,000)</b>	<b>(10,000)</b>
<b>Subtotal</b>	<b>692,707</b>	<b>736,348</b>

Note: On 14 December 2020, the Company entered into an equity transfer agreement with Lucion Group to dispose of 45% of the equity interests of Frist-Trust Fund Management Co., Ltd.. As at 30 June 2021, the equity transfer has not been completed.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
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## 15. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	30 June 2021	31 December 2020
<b>Associates indirectly held by the Group through consolidated structured entities, measured at fair value (c)</b>		
Tengzhou Haide Park Property Co., Ltd.	151,210	151,210
Huizhou Zhengfeng Industrial Investment Co., Ltd.	120,000	120,000
Cangzhou Liangsheng Property Development Co., Ltd.	111,088	111,088
Nanyang Liangheng Real Estate Co., Ltd.	52,920	82,320
Tianjin Liangxin Property Development Co., Ltd.	–	89,047
Huangshi Liangsheng Real Estate Development Co., Ltd.	91,379	94,179
Tianjin Liangshun Property Development Co., Ltd.	–	70,496
Nanyang Zhongliang Chengtong Real Estate Co., Ltd.	49,315	49,315
Ankang Liangsheng Foundation Real Estate Co., Ltd.	37,840	37,840
Yunnan Hongshan City Investment Development Co., Ltd.	30,000	30,000
Weifang Hengru Real Estate Co., Ltd.	15,000	15,000
Shenzhen Qianhai Run Xin Investment Co., Ltd.	13,234	13,234
Dongying Liangsheng Real Estate Co., Ltd.	43,560	–
<b>Subtotal</b>	<b>715,546</b>	863,729
<b>Total</b>	<b>3,202,570</b>	3,242,780

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 15. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Set out below are the associates of the Group as at 30 June 2021 which, in the opinion of the directors, are material to the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Measurement method
Fullgoal Fund Management Co., Ltd.	Shanghai, China	16.68%	Equity

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

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

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

##### Summarised statement of financial position

	30 June 2021	31 December 2020
Current assets	8,625,062	8,025,531
Non-current assets	965,711	719,150
<b>Total assets</b>	<b>9,590,773</b>	8,744,681
Current liabilities	(2,355,592)	(2,570,149)
Non-current liabilities	(1,502,908)	(958,198)
<b>Total liabilities</b>	<b>(3,858,500)</b>	(3,528,347)
<b>Net assets</b>	<b>5,732,273</b>	5,216,334

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 15. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

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

##### **Fullgoal Fund Management Co., Ltd. (Continued)**

##### Summarised statement of comprehensive income

	Six months ended 30 June	
	2021	2020
Revenue	3,998,339	1,955,701
Profit from continuing operations	1,241,634	615,268
Other comprehensive (expense) income	(3,695)	5,995
<b>Total comprehensive income</b>	<b>1,237,939</b>	621,263
<b>Dividends received from an associate</b>	<b>120,394</b>	60,197

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

##### Reconciliation of summarised financial information

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

	Six months ended 30 June	
	2021	2020
<b>Net assets at the beginning of the period</b>	<b>5,216,334</b>	3,946,363
Profit for the period	1,241,634	615,268
Dividend distribution	(722,000)	(361,000)
Other comprehensive (expense) income	(3,695)	5,995
<b>Net assets at the end of the period</b>	<b>5,732,273</b>	4,206,626
Percentage of the Group's interest in the associate	16.68%	16.68%
<b>Carrying amount of the Group's interest in the associate</b>	<b>955,856</b>	701,455

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 15. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

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

	Six months ended 30 June	
	2021	2020
<b>Carrying amount at the beginning of the period</b>	<b>1,509,227</b>	745,199
Acquisition during the period	<b>26,000</b>	26,000
Disposal during the period	–	(31,551)
Share of net (loss)/profit for the period	<b>(12,730)</b>	36,077
Other comprehensive income for the period	<b>8,671</b>	15
<b>Carrying amount at the end of the period</b>	<b>1,531,168</b>	775,740

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

The Group holds investments in those associates indirectly through consolidated structured entities. The Group elected to measure them at fair value through profit and loss.

	Six months ended 30 June	
	2021	2020
<b>Carrying amount at the beginning of the period</b>	<b>863,729</b>	752,808
Acquisition during the period	<b>43,560</b>	98,800
Disposal during the period	<b>(182,700)</b>	–
Fair value changes (Note 7)	<b>(9,043)</b>	(48,742)
<b>Carrying amount at the end of the period</b>	<b>715,546</b>	802,866

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 16. LOANS TO CUSTOMERS

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

	30 June 2021	31 December 2020
Corporate loans-at amortised cost	<b>15,517,538</b>	14,232,249
Including: issued by the Company	<b>3,143,730</b>	993,950
issued by the consolidated structured entities	<b>12,373,808</b>	13,238,299
Interest receivable	<b>109,100</b>	72,446
Less: expected credit loss ("ECL") allowance – loans	<b>(1,899,888)</b>	(1,555,395)
Less: ECL allowance – Interest receivable	<b>(3,667)</b>	(1,726)
<b>Loans to customers, net</b>	<b>13,723,083</b>	12,747,574
Presented as:		
Non-current assets	<b>10,423,950</b>	9,641,926
Current assets	<b>3,299,133</b>	3,105,648
<b>Loans to customers, net</b>	<b>13,723,083</b>	12,747,574

### (b) Movement of corporate loans

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2021</b>	<b>5,514,950</b>	<b>60,000</b>	<b>8,657,299</b>	<b>14,232,249</b>
Additions (i)	<b>1,293,950</b>	–	<b>2,152,889</b>	<b>3,446,839</b>
Repayments	<b>(1,137,600)</b>	<b>(30,000)</b>	<b>(993,950)</b>	<b>(2,161,550)</b>
Transfers:	<b>(750,000)</b>	<b>750,000</b>	–	–
<i>Transfer from Stage 1 to Stage 2</i>	<b>(750,000)</b>	<b>750,000</b>	–	–
<b>Balance as at 30 June 2021</b>	<b>4,921,300</b>	<b>780,000</b>	<b>9,816,238</b>	<b>15,517,538</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 16. LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2020</b>	7,463,694	–	1,563,486	9,027,180
Additions (i)	2,465,450	60,000	7,000,000	9,525,450
Repayments	(3,060,044)	–	(163,238)	(3,223,282)
Disposal (ii)	–	(275,200)	(821,899)	(1,097,099)
Transfers:	(1,354,150)	275,200	1,078,950	–
<i>Transfer from Stage 1 to Stage 2</i>	(275,200)	275,200	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(1,078,950)	–	1,078,950	–
<b>Balance as at 31 December 2020</b>	5,514,950	60,000	8,657,299	14,232,249

- (i) During the six months ended 30 June 2021, the addition of stage 3 corporate loans was a result of the Group acquired the rights of certain loans from trust scheme. During the year ended 31 December 2020, the addition of stage 3 corporate loans was a result of the Group's consolidation of a trust scheme.
- (ii) In December 2020, the Group disposed of certain impaired loans with the principal amount of RMB757,948 thousand, for which 100% ECL allowance had been provided, to Shandong AMC at a total consideration of zero. The Group de-recognised these loans and reversed the corresponding impairment upon disposal. The disposal did not result in any gain or loss in 2020.

### (c) Movements of ECL allowance-Loans

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Balance as at 1 January 2021</b>	131,120	1,637	1,422,638	1,555,395
Provision for impairment	37,231	15,823	306,649	359,703
Reversal of impairment allowances	(14,392)	(818)	–	(15,210)
Transfers:	(25,124)	25,124	–	–
<i>Transfer from Stage 1 to Stage 2</i>	(25,124)	25,124	–	–
<b>Balance as at 30 June 2021</b>	128,835	41,766	1,729,287	1,899,888

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
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## 16. LOANS TO CUSTOMERS (CONTINUED)

### (c) Movements of ECL allowance-Loans (Continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Balance as at 1 January 2020</b>	192,591	–	1,083,537	1,276,128
Provision for impairment	27,607	21,466	1,161,000	1,210,073
Reversal of impairment allowances	(74,665)	–	(78,366)	(153,031)
Disposal	–	(26,492)	(769,052)	(795,544)
Transfers:	(32,182)	6,663	25,519	–
<i>Transfer from Stage 1 to Stage 2</i>	(6,663)	6,663	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(25,519)	–	25,519	–
Exposure at default ("EAD"), Probability of default ("PD") and Loss given default ("LGD") changes (i)	17,769	–	–	17,769
<b>Balance as at 31 December 2020</b>	131,120	1,637	1,422,638	1,555,395

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 17. FINANCIAL INVESTMENTS-AMORTISED COST

### (a) Analysis of financial investments-amortised cost:

	30 June 2021	31 December 2020
Financial investments-amortised cost, gross (i)	14,297	65,897
Less: ECL allowance	(14,297)	(15,609)
Financial investments-amortised cost, net	–	50,288
Presented as:		
Non-current assets	–	50,288

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

### (b) Movement of principals

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2021</b>	<b>51,600</b>	–	<b>14,297</b>	<b>65,897</b>
Repayments	(51,600)	–	–	(51,600)
<b>Balance as at 30 June 2021</b>	<b>–</b>	–	<b>14,297</b>	<b>14,297</b>

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2020</b>	79,000	–	14,297	93,297
Additions	51,600	1,000,000	–	1,051,600
Repayments	(79,000)	(1,000,000)	–	(1,079,000)
<b>Balance as at 31 December 2020</b>	<b>51,600</b>	–	<b>14,297</b>	<b>65,897</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
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## 17. FINANCIAL INVESTMENTS-AMORTISED COST (CONTINUED)

### (c) Movements of ECL allowance

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Balance as at 1 January 2021</b>	1,312	–	14,297	15,609
Reversal of impairment allowances	(1,312)	–	–	(1,312)
<b>Balance as at 30 June 2021</b>	–	–	14,297	14,297

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Balance as at 1 January 2020</b>	1,359	–	14,297	15,656
Provision for impairment	1,312	34,461	–	35,773
Reversal of impairment allowances	(1,359)	(34,461)	–	(35,820)
<b>Balance as at 31 December 2020</b>	1,312	–	14,297	15,609

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 18. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes related to income taxes levied by the same taxation authority. The movements for deferred tax assets and liabilities recognised are as follows:

	At 1 January 2021	Charged (credited) to profit or loss	At 30 June 2021
Deferred income tax assets:			
Impairment allowances for assets	417,885	84,619	502,504
Staff salary and welfare payable	27,508	6,729	34,237
Fair value changes of financial assets at fair value through profit or loss	7,630	(6,456)	1,174
Subtotal	453,023	84,892	537,915
Deferred income tax liabilities:			
Fair value changes of financial assets at fair value through profit or loss	(107,302)	41,876	(65,426)
Others	(29,962)	(2,865)	(32,827)
Subtotal	(137,264)	39,011	(98,253)
Net deferred income tax assets	315,759	123,903	439,662

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 18. DEFERRED INCOME TAXES (CONTINUED)

	At 1 January 2020	Charged (credited) to profit or loss	At 31 December 2020
Deferred income tax assets:			
Impairment allowances for assets	271,766	146,119	417,885
Staff salary and welfare payable	27,715	(207)	27,508
Fair value changes of financial assets at fair value through profit or loss	–	7,630	7,630
Sub-total	299,481	153,542	453,023
Deferred income tax liabilities:			
Fair value changes of financial assets at fair value through profit or loss	(52,751)	(54,551)	(107,302)
Others	(16,620)	(13,342)	(29,962)
Sub-total	(69,371)	(67,893)	(137,264)
Net deferred income tax assets	230,110	85,649	315,759

## 19. OTHER NON-CURRENT ASSETS

	30 June 2021	31 December 2020
Investment in artwork	9,402	9,402
Investment in artwork, gross	46,740	46,740
Less: Impairment allowance	(37,338)	(37,338)
Contribution to Trust Industry Protection Fund on behalf of trust schemes (i)	99,162	179,530
Total	108,564	188,932

- (i) The amount represents the subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 21.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 20. CASH AND BANK BALANCES

### (a) Cash and bank balances

	30 June 2021	31 December 2020
Cash at banks	1,291,218	317,728
Other monetary assets (Note)	85,189	651,807
Total	1,376,407	969,535

Note: Other monetary assets represent cash deposited in securities company.

### (b) Cash and cash equivalents in the interim condensed consolidated statement of cash flows

	30 June 2021	31 December 2020
Cash at banks	1,291,218	317,728
Other monetary assets	85,189	651,807
Total	1,376,407	969,535

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021	31 December 2020
Equity investments		
Listed shares	19,814	90,395
Unlisted entities	286,123	289,680
Asset management products (i)	131,683	107,077
Mutual funds	689,634	618,447
Bonds	518,305	886,168
Investments in trust schemes	144,424	129,436
Investments in Trust Industry Protection Fund (ii)	113,255	115,253
<b>Total</b>	<b>1,903,238</b>	<b>2,236,456</b>
Presented as:		
Non-current assets	442,458	679,519
Current assets	1,460,780	1,556,937
<b>Financial assets at fair value through profit or loss, net</b>	<b>1,903,238</b>	<b>2,236,456</b>

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

The Group classified its own contribution to the Fund as financial assets at fair value through profit or loss.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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## 22. FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	30 June 2021	31 December 2020
Government bonds	595,000	107,147

## 23. OTHER CURRENT ASSETS

	30 June 2021	31 December 2020
Contribution to Trust Industry Protection Fund on behalf of trust schemes (Note 19(i))	129,155	109,887
Prepaid income tax	–	53,280
Receivable from the court (Note 32(b))	69,377	69,377
Others, net	82,768	125,208
Others, gross	113,324	144,378
Less: ECL allowance	(30,556)	(19,170)
	281,300	357,752

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 24. SHARE CAPITAL AND CAPITAL RESERVE

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

	30 June 2021	31 December 2020
Number of shares authorised and issued ( <i>in thousand</i> )	4,658,850	4,658,850
Share capital	4,658,850	4,658,850

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

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

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

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

As at 30 June 2021, the Group's capital reserve is shown as follows:

	30 June 2021	31 December 2020
Share premium	122,797	122,797
Others	20,488	20,488
Total	143,285	143,285

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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## 25. STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Statutory surplus reserve (i)	Statutory general reserve (ii)
Balance at 1 January 2020	845,282	834,036
Appropriation	58,659	58,659
Balance at 31 December 2020, 1 January 2021 and 30 June 2021	903,941	892,695

### (i) Statutory surplus reserve

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

### (ii) Statutory general reserve

#### *General risk reserve*

Pursuant to Caijin 2012 No. 20 "Requirements on General Risk Reserve for Financial Institutions" (the "Requirement") effective on 1 July 2012, the Company establishes a statutory general risk reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

#### *Trust compensation reserve*

Pursuant to Article 49 of "Administrative Rules on Trust Companies" issued by the CBIRC (2007 No.2), the Company is required to appropriate 5% of its net profit to the trust compensation reserve, and such appropriation may cease when it reaches 20% of the Company's registered capital. The Board of Directors of the Company had approved to change the appropriation ratio from 5% to 10% in 2015.

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## 26. OTHER RESERVES

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2021	(7,735)	–	(7,735)
Share of other comprehensive income of investments accounted for using the equity method	8,387	–	8,387
Balance at 30 June 2021	652	–	652
Balance at 1 January 2020	(865)	–	(865)
Share of other comprehensive income of investments accounted for using the equity method	(6,870)	–	(6,870)
Balance at 31 December 2020	(7,735)	–	(7,735)

## 27. DIVIDENDS

	Six months ended 30 June	
	2021	2020
Dividends declared during the period	–	256,237

According to the profit distribution plan approved by the Company's 2019 Annual General Meeting on 17 June 2020, cash dividends of RMB256,237 thousand (RMB0.055 before tax per ordinary share) had been paid on 12 August 2020, based on the total number of ordinary shares of 4,658,850,000.

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

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

In accordance with the relevant regulations, after the Company's initial public offering, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of which determined in accordance with China Accountant Standards and IFRS.

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## 28. NET ASSETS ATTRIBUTABLE TO OTHER BENEFICIARIES OF CONSOLIDATED STRUCTURED ENTITIES

Net assets attributable to other beneficiaries of consolidated structured entities represent other beneficiaries' share of net assets of the Company's consolidated structured entities. For detail information of consolidated structured entities, please refer to Note 31(b).

## 29. SHORT-TERM BORROWINGS

	30 June 2021	31 December 2020
Borrowings from China Trust Protection Fund Co., Ltd.	1,600,000	100,000

## 30. OTHER CURRENT LIABILITIES

	30 June 2021	31 December 2020
Payable to National Council for Social Security Fund (i)	227,452	227,452
Pre-distribution from investments in associates	313,786	280,950
Placement from borrowers (ii)	172,059	196,042
VAT and surtax payable for trust schemes (iii)	63,153	77,125
Other tax payables	23,968	32,869
Deferred trustee's remuneration fee income	19,834	13,918
Others	16,240	9,825
Total	836,492	838,181

- (i) The amounts represent proceeds from disposal of the Company's shares attributable to National Council for Social Security Fund upon initial public offering ("IPO").
- (ii) The amounts represent the subscription amounts collected by the Group from the borrowers of its financing trust schemes, which will then be contributed to the Trust Industry Protection Fund on behalf of such borrowers.
- (iii) In accordance with the Notice on Value-Added Tax of Asset Management products (Cai Shui [2017] No. 56) issued by the Ministry of Finance and the State Administration of Taxation, the Company is subject to VAT which is calculated at the rate of 3% of taxable investment income of trust schemes from 1 January 2018.

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## 31. STRUCTURED ENTITIES

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

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

The unconsolidated structured entities managed by the Group are trust schemes established and managed by the Group as trustee. Based on the analysis and research of the potential target customers, the Group designs and offers trust products to meet the needs of its customers. The proceeds raised are then invested in relevant financial markets or financial products in accordance with the contractual terms of the trust agreements. Investment return shall be allocated to investors according to the contractual agreements. The Group receives remuneration as the trustee of these trust schemes and is entitled to investment return from the trust schemes in which the Group has made investment. The Group considers its exposure to variability of returns (being the trustee's remunerations and investment return if any, on an aggregate basis) from its involvement with these structured entities is not significant and hence it does not consolidate these structured entities.

As at 30 June 2021, the volume of unconsolidated trust schemes managed by the Group amounted to RMB191,798 million (31 December 2020: RMB231,770 million). The Group's maximum exposure to these unconsolidated structured entities in regarding to the trustee's remuneration receivables amounted to RMB162,115 thousand at 30 June 2021 (31 December 2020: RMB165,875 thousand). The Group invests in some of these structured entities, which are recognised as financial assets at fair value through profit or loss or financial instrument investments at amortised cost.

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

As at 30 June 2021 and 31 December 2020, the Group invested in a number of structured entities managed by third parties. These investments in structured entities are classified as financial assets at fair value through profit or loss. The Group did not provide financial or other support to these structured entities.

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## 31. STRUCTURED ENTITIES (CONTINUED)

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

(iii) The carrying value and the Group's maximum exposure (excluding trustee's remuneration receivables disclosed previously) to these unconsolidated structured entities.

	Carrying value	Maximum exposure to loss	Total volume of structured entities
<b>At 30 June 2021</b>			
Unconsolidated structured entities managed and invested by the Group			
– Financial assets at fair value through profit or loss	144,424	144,424	1,781,839
Unconsolidated structured entities managed by third parties			
– Mutual funds	689,634	689,634	Note 1
– Asset management products	131,683	131,683	Note 1
– Investments in Trust Industry Protection Fund	113,255	113,255	Note 1
<b>At 31 December 2020</b>			
Unconsolidated structured entities managed and invested by the Group			
– Financial assets at fair value through profit or loss	129,436	129,436	2,418,972
– Financial investments-amortised cost	50,288	50,288	497,300
Unconsolidated structured entities managed by third parties			
– Mutual funds	618,447	618,447	Note 1
– Asset management products	107,077	107,077	Note 1
– Investments in Trust Industry Protection Fund	115,253	115,253	Note 1

Note 1: Total volume of these structured entities is not available in the public information.

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## 31. STRUCTURED ENTITIES (CONTINUED)

### (b) Consolidated structured entities

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

At 30 June 2021, the number of consolidated trust schemes established and managed by the Company were 49 (31 December 2020: 50) and total volume of consolidated trust schemes amounted to RMB14,420 million (31 December 2020: RMB16,918 million).

For trust schemes that may not be able to realise payments from underlying investments in accordance with the due date set out in the original contract (the "Distressed trusts"), the Group ordinarily has the discretion to provide liquidity or other support, after evaluating various factors including the potential reputational implications to the Group, relationships with investors, as well as the likelihood of ultimately recovering payments from the underlying assets of the trust schemes. As soon as Distressed trust meets the criteria of a consolidated structured entity, it will be consolidated by the Group. As at 30 June 2021, total assets of such Distressed trusts amounted to RMB8,422 million (31 December 2020: RMB7,624 million), and impairment allowance of RMB1,312 million had been made (31 December 2020: RMB1,304 million).

## 32. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitment

	30 June 2021	31 December 2020
Contracted but not yet incurred	11,880	11,814

These capital commitments mainly relate to purchase of intangible assets.

### (b) Legal proceedings

The Group believes the possibility of the loss of legal proceedings that remained outstanding as at 30 June 2021, which the Group were interested party, was low. Therefore, so no provision was required.

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## 33. RELATED PARTY TRANSACTIONS

The Company is controlled by Lucion Group, which aggregately owns 52.96% of the shares of the Company at 30 June 2021. Lucion Group is controlled by Shandong Provincial Department of Finance. CNPC Assets Management Co., Ltd. ("CNPC AMC"), holds 18.75% of the Company's shares and has significant influence over the Company.

The Company's directors were of the view that Lucion Group, CNPC AMC and their subsidiaries were considered as related parties of the Group. Certain trust schemes were also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 33(d) below. The Group's transactions with related parties are conducted under the ordinary course of business.

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

During the six months ended 30 June 2021 and the year ended 31 December 2020, certain trust schemes were considered to be related parties if they are either controlled by the Group or its parent ("Lucion Group").

	30 June 2021	31 December 2020
Number of trust schemes controlled by the Group (Note 31(b))	49	50
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	15	18

Total entrusted assets of the trust schemes controlled by Lucion Group (excluding those controlled by the Group) are as follows:

	30 June 2021	31 December 2020
Total entrusted assets of trust schemes controlled by Lucion Group	7,891,354	8,861,650

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	16,463	12,638

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Related parties as trustors of trust schemes

During the six months ended 30 June 2021 and the year ended 31 December 2020, Lucion Group and its subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group.

#### (i) Related parties as trustors of consolidated trust schemes

Related parties' interests in these consolidated trust schemes are reported as other liabilities in the Group's interim condensed consolidated statement of financial position (Note 28).

	30 June 2021	31 December 2020
Number of trust schemes where the related parties act as trustors	5	7
Interests of related parties in these consolidated trust schemes	<b>(843)</b>	(917)

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

	Six months ended 30 June	
	2021	2020
Interest expense	–	(8,979)
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	<b>(75)</b>	156

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

	30 June 2021	31 December 2020
Number of unconsolidated trust schemes where related parties acts as trustors	27	45
Assets entrusted by related parties	<b>3,790,354</b>	5,829,933
Total entrusted assets of these unconsolidated trust schemes	<b>8,985,934</b>	10,437,566

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Related parties as trustors of trust schemes (Continued)

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

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	19,526	19,884

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

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

	30 June 2021	31 December 2020
Number of unconsolidated trust schemes which provide financing to related parties	4	5
Amount financed	812,000	813,800
Total entrusted assets of these unconsolidated trust schemes	812,000	813,800

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	8,789	13,904

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### (ii) Related parties financed by consolidated trust schemes of the Group

	30 June 2021	31 December 2020
Number of consolidated trust schemes which provide financing to related parties	4	5
Amount financed	455,744	784,445
Total entrusted assets of these consolidated trust schemes	455,744	784,445

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

	Six months ended 30 June	
	2021	2020
Interest income	17,142	61,798

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

#### (i) Key management compensation

The compensation paid to key management personnel is shown below:

	Six months ended 30 June	
	2021	2020
Salaries and allowances	3,274	2,358
Discretionary bonuses	3,403	11,106
Pension	158	26
Other social security obligations	254	213
<b>Total</b>	<b>7,089</b>	<b>13,703</b>

The compensation payable to key management personnel is shown below:

	30 June 2021	31 December 2020
Discretionary bonuses payable	3,403	14,522

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

	30 June 2021	31 December 2020
Key management's personal investments in trust schemes	13,069	23,969
<b>Total entrusted assets of these trust schemes</b>	<b>211,918</b>	<b>188,672</b>

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	2,835	10,339

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

### (e) Other significant related party transactions

During the six months ended 30 June 2021, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2021	2020
System maintenance expenses paid to Luxin Technology Co., Ltd.	3,741	4,004
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	–	2,522
Restaurant management fee paid to Shandong Luxin Property Management Co., Ltd.	–	836
Rental costs paid to Anhui Lu Xin Investment Co., Ltd.	–	56
Guarantee fee paid to Shandong Luxin Investment Holdings Group Co., Ltd.	2,697	–

### (f) The Group and other government related entities

Other than disclosed above and also in other relevant notes in the interim condensed consolidated financial information, some of the trust schemes managed by the Group are entered into with government authorities, agencies, affiliates and other state-controlled entities who mainly act as the trustors. Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for such kind of trust schemes, and such pricing schemes do not depend on whether or not the counterparties are government authorities, agencies, affiliates and other state-controlled entities.

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## 34. SEGMENT ANALYSIS

### (a) Operating segments

	Six months ended 30 June 2021			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	488,446	–	488,446
Interest income	441,924	473	–	442,397
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	(135,419)	–	–	(135,419)
Investment income	170,696	–	–	170,696
Net gains on disposal of investments in associates	41,196	–	–	41,196
Other operating income	2,985	–	–	2,985
<b>Total operating income</b>	<b>521,382</b>	<b>488,919</b>	<b>–</b>	<b>1,010,301</b>
Interest expenses	(300,498)	–	–	(300,498)
Staff costs (including directors' and supervisors' emoluments)	(1,949)	(72,724)	–	(74,673)
Operating lease payments	(291)	(4,072)	–	(4,363)
Depreciation and amortisation	(550)	(7,697)	–	(8,247)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(26,683)	–	–	(26,683)
Tax and surcharges	(6,358)	(1,692)	–	(8,050)
Impairment losses on financial assets, net of reversal	(335,745)	–	–	(335,745)
Other operating expenses	(852)	(25,493)	–	(26,345)
<b>Total operating expenses</b>	<b>(672,926)</b>	<b>(111,678)</b>	<b>–</b>	<b>(784,604)</b>
Share of profit from investments accounted for using the equity method	239,626	–	–	239,626
<b>Profit before income tax</b>	<b>88,082</b>	<b>377,241</b>	<b>–</b>	<b>465,323</b>

	30 June 2021			
	Proprietary business	Trust business	Unallocated	Total
<b>Segment assets</b>	<b>13,281,243</b>	<b>8,773,731</b>	<b>21,367</b>	<b>22,076,341</b>
<b>Segment liabilities</b>	<b>11,320,021</b>	<b>171,867</b>	<b>–</b>	<b>11,491,888</b>

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## 34. SEGMENT ANALYSIS (CONTINUED)

### (a) Operating segments (Continued)

	Six months ended 30 June 2020			Total
	Proprietary business	Trust business	Unallocated	
Fee and commission income	-	571,351	-	571,351
Interest income	386,267	365	-	386,632
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	54,434	-	-	54,434
Investment income	42,520	-	-	42,520
Net gains on disposal of investments in associates	54,882	-	-	54,882
Other operating income	27,247	-	-	27,247
<b>Total operating income</b>	<b>565,350</b>	<b>571,716</b>	<b>-</b>	<b>1,137,066</b>
Interest expenses	(171,259)	-	-	(171,259)
Staff costs (including directors and supervisors' emoluments)	(2,179)	(76,807)	-	(78,986)
Operating lease payments	(280)	(3,918)	-	(4,198)
Depreciation and amortisation	(447)	(6,260)	-	(6,707)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(25,089)	-	-	(25,089)
Tax and surcharges	(723)	(7,294)	-	(8,017)
Impairment losses on financial assets, net of reversal	(312,580)	-	-	(312,580)
Impairment losses on other assets	(747)	-	-	(747)
Other operating expenses	(1,722)	(17,850)	-	(19,572)
<b>Total operating expenses</b>	<b>(515,026)</b>	<b>(112,129)</b>	<b>-</b>	<b>(627,155)</b>
Share of profit from investments accounted for using the equity method	140,148	-	-	140,148
<b>Profit before income tax</b>	<b>190,472</b>	<b>459,587</b>	<b>-</b>	<b>650,059</b>

	31 December 2020			Total
	Proprietary business	Trust business	Unallocated	
<b>Segment assets</b>	<b>19,357,514</b>	<b>1,147,497</b>	<b>178,810</b>	<b>20,683,821</b>
<b>Segment liabilities</b>	<b>10,319,814</b>	<b>183,441</b>	<b>5,442</b>	<b>10,508,697</b>

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## 35. SUBSEQUENT EVENTS

The Group has no material events that requires additional disclosure after 30 June 2021.

## 36. FINANCIAL RISK MANAGEMENT

### Overview

The Group's activities expose it to a variety of financial risks: market risk (primarily price risk and interest rate risk), credit risk and liquidity risk. Risk management is key to the business operation of the Group. The Group aims to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The main business of the Group includes trust business and proprietary business. The Group considers risk monitoring, mitigation, resolution and disposition as critical procedures to manage the risk of its trust business, as any failure to identify, mitigate, resolve or dispose of risks of each trust scheme may materially and adversely affect the reputation and financial performance of the Group. The Group has established a comprehensive risk management framework which include a three-level risk management system with clear responsibilities assigned to each level as follows:

- Level 1 system is the Trust Business Committee of the Board of Directors which is responsible for defining the risk appetite, risk management policies and internal control policies of the Company;
- Level 2 system is at the level of senior management including the Company's General Manager, Vice General managers and the Chief Risk Officer, who are responsible for overseeing the Company's daily risk management functions and activities in accordance with the Company's risk tolerance level and risk management and internal control polices as approved by the Board of Directors;
- Level 3 system mainly refer to relevant business and functional departments of the Company, including mainly Trust Business Departments, Risk Management Department, Legal & Compliance Department and Asset Disposition Department which are mainly responsible for risks identification, mitigation, monitoring, reporting, and resolution.

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## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk

#### (a) *Forward-looking information incorporated in the ECL models*

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

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

The Group provides three possible scenarios along with scenario weightings to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 30 June 2021 and 31 December 2020, for all portfolios, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

#### *Economic variable assumptions*

The scenarios “base”, “upside” and “downside” were used for all portfolios. The weightings assigned to each economic scenario at 30 June 2021 were 50%, 20%, 30% respectively (31 December 2020: same).

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## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (Continued)

#### (a) Forward-looking information incorporated in the ECL models (Continued)

##### Sensitivity analysis

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward-looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the ECL governance process by recalculating the ECL for selected portfolios where 100% weighting is assigned to each of the three scenarios described above. The weighting is reflected in the measurement of the resulting ECL. This analysis excludes any management adjustment. Further details on management adjustment is provided below.

The three economic scenarios are generated to capture the Company's view of a range of possible forecast economic conditions that is sufficient for the calculation of unbiased and probability weighted ECL. Therefore, the ECLs calculated for each of the scenarios represent a range of possible outcomes that is being evaluated while arriving at the ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The ECL sensitivity below represents an estimate based on the underlying point-in-time distribution of economic scenarios which have the potential to change rapidly as economic conditions evolve where we operate. The recalculated ECLs for each of the scenarios should be read in the context of the sensitivity analysis as a whole.

IFRS 9 ECL sensitivity of loans to customers and financial investments-amortised cost to future economic conditions:

	30 June 2021	31 December 2020
ECL weighted exposure	1,764,405	1,571,004
Base scenario	1,720,608	1,531,499
Upside scenario	1,917,321	1,711,008
Downside scenario	1,643,190	1,460,947

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## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (Continued)

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

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

	30 June 2021		
	Gross carrying amount	Loss allowance	Carrying amount
Cash and bank balances (Stage 1)	1,376,407	–	1,376,407
Financial assets purchased under resale agreements (Stage 1)	595,000	–	595,000
Loans to customers (including interest receivable)	15,626,638	(1,903,555)	13,723,083
Stage 1	4,993,799	(131,505)	4,862,294
Stage 2	816,602	(196,524)	620,078
Stage 3	9,816,237	(1,575,526)	8,240,711
Financial investments-amortised cost (including interest receivable)	14,297	(14,297)	–
Stage 1	–	–	–
Stage 2	–	–	–
Stage 3	14,297	(14,297)	–
Other financial assets-amortised cost	587,551	(44,970)	542,581
Stage 1	529,379	(3,680)	525,699
Stage 2	17,356	(474)	16,882
Stage 3	40,816	(40,816)	–
<b>Total</b>	<b>18,199,893</b>	<b>(1,962,822)</b>	<b>16,237,071</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (Continued)

(b) *Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)*

	31 December 2020		
	Gross carrying amount	Loss allowance	Carrying amount
Cash and bank balances (Stage 1)	969,535	–	969,535
Financial assets purchased under resale agreements (Stage 1)	107,147	–	107,147
Loans to customers (including interest receivable)	14,304,695	(1,557,121)	12,747,574
Stage 1	5,587,176	(132,840)	5,454,336
Stage 2	60,220	(1,643)	58,577
Stage 3	8,657,299	(1,422,638)	7,234,661
Financial investments-amortised cost (including interest receivable)	65,897	(15,609)	50,288
Stage 1	51,600	(1,312)	50,288
Stage 2	–	–	–
Stage 3	14,297	(14,297)	–
Other financial assets-amortised cost	590,806	(35,117)	555,689
Stage 1	548,974	(3,993)	544,981
Stage 2	11,008	(300)	10,708
Stage 3	30,824	(30,824)	–
<b>Total</b>	<b>16,038,080</b>	<b>(1,607,847)</b>	<b>14,430,233</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Fair values of financial assets and liabilities

#### (a) Fair value hierarchy

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

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

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

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balances, financial assets purchased under resale agreements, loans to customers, financial investments-amortised cost, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As at 30 June 2021 and 31 December 2020, their fair value approximate carrying amounts.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

30 June 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments				
– Listed shares	19,814	–	–	19,814
– Unlisted shares	–	–	286,123	286,123
– Asset management products	–	–	131,683	131,683
– Mutual funds	689,634	–	–	689,634
– Bonds	–	518,305	–	518,305
– Investments in trust schemes	–	–	144,424	144,424
– Investments in Trust Industry Protection Fund	–	–	113,255	113,255
<b>Subtotal</b>	<b>709,448</b>	<b>518,305</b>	<b>675,485</b>	<b>1,903,238</b>
<b>Investments in associates</b>	–	–	715,546	715,546
<b>Total</b>	<b>709,448</b>	<b>518,305</b>	<b>1,391,031</b>	<b>2,618,784</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

31 December 2020	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments				
– Listed shares	90,395	–	–	90,395
– Unlisted shares	–	–	289,680	289,680
– Asset management products	–	–	107,077	107,077
– Mutual funds	618,447	–	–	618,447
– Bonds	–	886,168	–	886,168
– Investments in trust schemes	–	–	129,436	129,436
– Investments in Trust Industry Protection Fund	–	–	115,253	115,253
	708,842	886,168	641,446	2,236,456
<b>Investments in associates</b>	–	–	863,729	863,729
<b>Total</b>	708,842	886,168	1,505,175	3,100,185

During the six months ended 30 June 2021, the Group did not reclassify the financial instruments among different levels (31 December 2020: nil).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

##### (i) *Financial instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. Instruments included in Level 1 comprise primarily mutual funds and listed shares.

##### (ii) *Financial instruments in Level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

	Financial assets at fair value		Total
	through profit or loss	Investments in associates	
1 January 2021	641,446	863,729	1,505,175
Acquisitions	79,079	43,560	122,639
Disposals	(40,621)	(182,700)	(223,321)
Gains recognised in profit or loss	(4,419)	(9,043)	(13,462)
30 June 2021	675,485	715,546	1,391,031
Unrealised losses recognised in profit or loss attributable to balances held at the end of the reporting period	(18,345)	–	(18,345)
1 January 2020	912,970	752,808	1,665,778
Acquisitions	97,787	175,955	273,742
Disposals	(428,044)	(142,538)	(570,582)
Gains recognised in profit or loss	58,733	77,504	136,237
31 December 2020	641,446	863,729	1,505,175
Unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	9,235	22,466	31,700

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR SIX MONTHS ENDED 30 JUNE 2021

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

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Description	Fair value at 30 June 2021	Valuation technique(s)	Unobservable input	Range
<b>Financial assets at fair value through profit or loss</b>				
- Equity investments	172,997	Market comparable company model	P/E multiple (ii) Discount for lack of marketability (i)	1.20 26%
<b>Investments in associates</b>	<b>715,546</b>	<b>Discounted cash flow</b>	<b>Discount rate</b>	<b>18%-34%</b>

Description	Fair value at 31 December 2020	Valuation technique(s)	Unobservable input	Range
<b>Financial assets at fair value through profit or loss</b>				
- Equity investments	191,342	Market comparable company model	P/E multiple (ii) Discount for lack of marketability (i)	1.20 26%
	4,146	Discounted cash flow	Discount rate	20%-43%
<b>Investments in associates</b>	<b>863,729</b>	<b>Discounted cash flow</b>	<b>Discount rate</b>	<b>18%-34%</b>

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

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

As at 30 June 2021, the remaining investments categorised in Level 3 with fair value of RMB502,488 thousand (31 December 2020: RMB430,888 thousand) were valued based on unobservable inputs such as net assets value of investment product.

# DEFINITIONS

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

“Articles of Association”	Articles of Association of the Company (as amended from time to time)
“Audit Committee”	the audit committee under the Board of Directors
“Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“Business Decision Committee”	the business decision committee under the Board
“CBRC” or “CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), or its predecessors, the former China Banking Regulatory Commission and/or the former China Insurance Regulatory Commission, where the context requires
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim report and for geographical reference only and except where the context requires, references in this interim report to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Group”	the Company and the trust schemes over which it has control
“H Share(s)”	overseas listed foreign share(s) in the Company’s ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“HK\$” or “Hong Kong dollars”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

# DEFINITIONS

“Human Resources and Nomination Committee”	the human resources and nomination committee of the Board of Directors
“IFRS”	International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lucion Group”	Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司)
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the People’s Republic of China (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them
“Reporting Period”	1 January 2021 to 30 June 2021
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Office of CBRC” or “Shandong Office of CBIRC”	the Shandong Office of CBRC (中國銀監會山東監管局)
“Shandong SASAC”	Shandong Provincial State-owned Assets and Administration Commission
“Shandong Trust”, “SITC”, “Company”, “we” or “us”	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), established in the PRC on 10 March 1987 and converted into a joint stock company with limited liability under the PRC Company Law on 30 July 2015, except where the context otherwise requires, the trust schemes over which it has control

# DEFINITIONS

“Shareholder(s)”	holder(s) of our shares
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Strategies and Risk Management Committee”	the strategies and risk management committee under the Board of Directors
“Supervisor(s)”	supervisor(s) of the Company

# GLOSSARY OF TECHNICAL TERMS

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

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

# LUCION

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



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SITC APP