LUCION

Shandong International Trust Co., Ltd.

山東省國際信託股份有限公司

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

(Stock Code: 1697)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the "**Board**") of Shandong International Trust Co., Ltd. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company for the six months ended 30 June 2020 (the "**Reporting Period**"). The content of this interim results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in relation to preliminary announcements of interim results and the International Financial Reporting Standards (the "**IFRSs**") promulgated by the International Accounting Standards Board. Such interim results have also been reviewed and confirmed by the Board and the audit committee of the Board (the "**Audit Committee**"). Unless otherwise stated, financial data of the Company are presented in Renminbi.

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

1. BASIC CORPORATE INFORMATION

1.1 Basic Information

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

1.2 Contact Person and Contact Details

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

2. SUMMARY OF FINANCIAL DATA

2.1 Summary of Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30 June** **2020**	2019
		(RMB in thousands)	
Fee and commission income	2	**571,351**	477,066
Interest income	3	**386,632**	243,701
Net changes in fair value on financial assets at fair value through profit or loss (“**FVPL**”) and investment in associates measured at fair value	4	**54,434**	133,862
Investment income	5	**42,520**	3,072
Net gains on disposal of investment in associates		**54,882**	–
Other operating income		**27,247**	314
Total operating income		**1,137,066**	858,015
Total operating expenses		**(627,155)**	(488,705)
Share of profit of investments accounted for using the equity method		**140,148**	61,833
Profit before income tax		**650,059**	431,143
Income tax expense	10	**(135,791)**	(102,861)
Net profit attributable to shareholders of the Company		**514,268**	328,282

2.2 Summary of Unaudited Interim Condensed Consolidated Statement of Financial Position

	Note	**As at 30 June 2020**	As at 31 December 2019 (Audited)
		(RMB in thousands)	
Total current assets		**5,108,662**	4,307,868
Total current liabilities		**2,200,044**	2,065,009
Total non-current assets		**10,959,387**	10,264,422
Total non-current liabilities		**3,798,576**	2,696,868
Total assets		**16,068,049**	14,572,290
Total liabilities		**5,998,620**	4,761,877
Total equity		**10,069,429**	9,810,413

2.3 Summary of Unaudited Interim Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30 June**	
		2020	2019
		(RMB in thousands)	
Net cash used in operating activities		**(476,380)**	(306,729)
Net cash used in investing activities		**(60,153)**	(256,818)
Net cash used in financing activities		**(29,428)**	(45,521)
Effect of exchange rate changes on cash and cash equivalents		**467**	(12,587)
Net decrease in cash and cash equivalents		**(565,494)**	(621,655)
Cash and cash equivalents at the beginning of the period		**964,424**	1,081,254
Cash and cash equivalents at the end of the period	15	**398,930**	459,599

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment Review

In the first half of 2020, as the COVID-19 pandemic continued spreading, the global economy was severely affected, the downward economic pressure intensified, the international financial market grew volatile, and trade protectionism rose – factors of uncertainties and instability notably increased. Under the exceptionally complicated and severe domestic and overseas circumstances impacted by the pandemic, China continued to accelerate its counter-cycle adjustment efforts and carried out measures for the "stability on six fronts"[1] and "security in six areas"[2] campaigns while displaying strong resistance in its economy, which went from stable to expanding, leading the globe in epidemic control and prevention as well as economic recovery.

In the face of the huge impact from the pandemic, China's financial industry fully implemented the decisions and plans of the Central People's Government and State Council by promoting epidemic prevention and control as well as socioeconomic development in a coordinated manner and guiding funds towards further increasing support for key areas and weak links of the national economy, in order to help reduce social financing costs and precisely and effectively support epidemic prevention and control as well as work and production resumption, in an effort to minimise the effects of the pandemic on the economy and create an appropriate financial environment for winning the battle against COVID-19 and achieving the "stability on six fronts".

Following the eruption of the COVID-19 pandemic, China's trust industry, in a bid to achieve triumph in the battle for epidemic control and prevention, took full advantage of its strength of flexible financial functions, actively raised funds to support work and production resumption in the real economy, and initiated to establish charitable trusts to assist epidemic prevention and control. The trust industry actively complied with regulatory guidelines by persistently serving the real economy and offering support for people's good living, accelerating the adjustment of their business structure and largely promoting the trust culture, so as to resolutely safeguard the red lines for compliance and vigorously promote high quality development in the industry. As of the end of the first quarter in 2020, the balance of trust assets under the management of China's trust industry totalled RMB21.33 trillion with the scale of trust assets continuing its downward trend, while further improvement of the sector's asset structure has led to significant enhancement in its business quality and efficiency. At the same time, the

1. "Six fronts" are employment, finance, foreign trade, foreign investment, domestic investment and market expectation.
2. "Six areas" are job security, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains and the normal functioning of primary-level governments.

China Banking and Insurance Regulatory Commission (the "**CBIRC**") (formed on the merger of the China Banking Regulatory Commission (the "**CBRC**") and the China Insurance Regulatory Commission in April 2018) issued an announcement on the Interim Measures for Administration on the Funds Trust of Trust Companies (Exposure Draft) (《信託公司資金信託管理暫行辦法(徵求意見稿)》), which further clarified the direction of trust industry transformation and innovation development.

3.2 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 follows a market-oriented approach, closely monitors changes of the economic and market conditions in the PRC to identify market opportunities, and has timely and adeptly adjusted its development strategies to proactively grow its business and achieve the "dual drivers" for the trust business and the proprietary business.

In the first half of 2020, the Company continued to optimise its governance capability, resolutely revisited its existing businesses, accelerated the switch from old to new growth drivers, strived to prevent and resolve risks, promoted the construction of the trust culture and maintained overall steady and healthy operation. First of all, the Company's active management capability led to its core competitiveness. The Company's conventional businesses generated "new engines" and its "equity + debt" real estate projects were more stable and mature, which became the "ballast stone" of business transformation and innovation of the Company; its innovative business generated "new growth drivers", its standardised businesses including cash management and bonds were fully rolled out, the scale of its inclusive finance business such as the consumer trusts continued to increase, and its investor education on "fixed income+" products has been initiated; the quality and efficiency of its inherent capital operation steadily improved, and its key shareholder First-Trust Fund Management Co., Ltd. appointed new senior management to introduce a market remuneration and incentive system, taking concrete steps towards transformative development. Secondly, the Company equally stressed its financial management capability building and brand building. The Company continuously enhanced its capabilities for self-marketing and expanding its product system, channel system and financial planner team, simultaneously made "online + offline" efforts, which led to a noticeably increased ratio in the signing of online contracts; it vigorously promoted wealth account management business and actively pushed for wealth management transformation; the influence of the Company's family trust brand "De Shan Qi Jia" (「德善齊家」) continuously grew, its standardised and self-managed products were launched earlier, and the use of technology made its family trust business increasingly advanced. Thirdly, the Company pushed forward with the construction of a comprehensive risk management and compliance system. The Company strengthened its internal management, insisted upon "compliance-oriented practices" and largely promoted compliance cultures; adhering to the principle of risks being "detectable, controllable and bearable", the Company carried out strict project introduction management by launching regular comprehensive risk investigations and strengthened temporary project risk management, so as to ensure risks are early "detected, warned and handled", and carefully maintain the line of defence of comprehensive risk management. We will stand by our role as a trustee, promote trust culture, and push forward the construction of trust culture in depth by regular sharing of legal briefing, organising online classes and public lectures, playing promotional videos in the elevator room, etc.

In the first half of 2020, the Group achieved operating income with an amount of RMB1,137.1 million, representing a year-on-year increase of 32.5%. Meanwhile, the net profit attributable to shareholders of the Company was RMB514.3 million, representing a year-on-year increase of 56.7%, mainly due to the year-on-year increase of fee and commission income, interest income, and share of profit of investments accounted for using the equity method, partially offset by a year-on-year decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value and a year-on-year increase in interest expenses.

The Group's business segments are (i) trust business and (ii) proprietary business. Trust business is the Group's main business. As the trustee, the Group accepts entrustment of funds and/or property from its trustor clients and manages such entrusted funds and/or property to satisfy its trustor clients' investment and wealth management needs, as well as its counterparty clients' financing needs. The 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			
	2020		2019	
	Amount	**%**	Amount	%
	(RMB in thousands, apart from %)			
Trust business				
Operating income	**571,716**	**44.76%**	477,558	51.92%
Segment income	**571,716**	**44.76%**	477,558	51.92%
Proprietary business				
Operating income	**565,350**	**44.26%**	380,457	41.36%
Share of profit of investments accounted for using the equity method	**140,148**	**10.98%**	61,833	6.72%
Segment income	**705,498**	**55.24%**	442,290	48.08%
Total	**1,277,214**	**100.00%**	919,848	100.00%

In the first half of 2020, the income from the trust business and proprietary business of the Group accounted for 44.8% and 55.2% of the total revenue of the Group, respectively.

3.2.1 Trust Business

In the first half of 2020, the Company actively responded to the impacts brought by the pandemic, domestic economic circumstances and regulatory policy environment changes; faced with downward pressure on the trust scale against the backdrop of tight regulation, the Company continued to optimise its trust business structure, resolutely revisited its existing businesses and sped the development of its innovative business, actively cultivating new business growth points. Firstly, the Company continuously optimised the commercial models of its conventional businesses and vigorously pushed for trust business with improved quality and effectiveness. With deep cultivation and improvement of "equity + debts" business, the Company's administrative management business was reduced in an orderly fashion, and trust business and income structures continuously optimised. Secondly, the Company increased research and development input in its existing products and accelerated the launch of standardised products to continuously increase its channels for its existing business industries. Taking advantage of its leading strengths, the Company explored the increase of sources for the main assets in its existing businesses to bolster its asset allocation capability; it actively pushed for upgrades of the dedicated family trust business system to increase management efficiency; it also continuously increased contacts for expanding its existing businesses by consolidating its existing business channels and sped up the forging of new institutional partnerships. Thirdly, the Company ramped up input in its innovative business for continuous expansion. The Company vigorously extended its standardised business, strengthened the construction of its investment and research system to enhance its capability for asset allocation, actively increase the number of sources for clients for cash management products, and promote partnerships with financial institutional agents; it explored innovative business models for consumer trusts and transaction structures, whereby progressively improving its active management; it bolstered the acquisition of institutional clients and further increased the scale of bond trusts, leading to continuous enhancement in its active management capability. Fourthly, the Company's marketing capability steadily improved and wealth management transformation accelerated. The Company added an institutional wealth management team and deeply investigated the growth potential of its institutional clients; it persisted in conducting double-wheel-driven "online + offline" sales by insisting on full marketing, an effective response to the pandemic; it actively promoted wealth account management business and continuously pushed for wealth management transformation.

In the first half of 2020, the Company constantly improved its active management capability, and accelerated the pace of the trust industry to revisit the fundamentals. In the first half of 2020, the trust assets under management ("**AUM**") recorded a year-on-year decrease, while the income from trust business of the Company recorded a year-on-year increase, and the income from actively managed trust 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 RMB247,290 million as at 30 June 2019 to RMB232,525 million as at 30 June 2020, and the total number of trusts were 1,203 and 1,130, respectively, as at the respective dates. As at 30 June 2020, the AUM of actively managed trust was RMB101,360 million, accounting for 43.6% of the total AUM and indicating a year-on-year fall of 0.5 percentage points. During the Reporting Period, revenue from the actively managed trust amounted to RMB462 million, accounting for 80.9% of the fee and commission income of the total income from trust business and indicating a year-on-year growth of 3.8 percentage points.

Classification of trusts

With the flexible trust arrangements under PRC laws, advantages of mixed operations under the Company's trust license and strong active management capability, the Company has been continuously developing trust products with new 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 the differences of 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 financing solutions for real estate development projects, infrastructure projects and other various types of enterprises.

(2) **Investment Trusts:** The Company is responsible for or participates in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of the trust assets, and focuses on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of equity investment trusts, 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, and in charge of project management after the establishment of the trust. The Company's roles in administrative management trusts are limited to providing trust administration services and accepting entrustment of trust assets from trustors to provide financing for or invest in projects or enterprises designated by the trustors.

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

	As at 30 June			
	2020		2019	
	Number	**AUM**	Number	AUM
	(AUM: RMB in millions)			
Financing trusts	**131**	**32,586**	143	40,889
Investment trusts	**651**	**68,774**	647	68,270
Administrative management trusts	**348**	**131,165**	413	138,131
Total	**1,130**	**232,525**	1,203	247,290

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

	Six months ended 30 June			
	2020		2019	
	Revenue	**%**	Revenue	%
	(Revenue: RMB in millions)			
Financing trusts	**164**	**28.72**	220	46.12
Investment trusts	**298**	**52.19**	148	31.03
Administrative management trusts	**109**	**19.09**	109	22.85
Total	**571**	**100.00**	477	100.00

Financing trusts

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

(3) **Industrial and Commercial Enterprises Trusts:** The Company's industrial and commercial enterprises trusts focus on arranging various forms of financing for companies to satisfy their working capital needs in the general industrial and commercial sectors in the PRC. In the first half of 2020, the Company offered support to industrial and commercial sectors via industry investment funds and equity investments, which diversified the instruments available for the industrial and commercial sectors.

As at 30 June 2019 and 30 June 2020, the Company had managed 143 and 131 financing trusts, respectively, and the AUM decreased by 20.3% from RMB40,889 million as at 30 June 2019 to RMB32,586 million as at 30 June 2020. The revenue from financing trusts for the first half of 2020 decreased by 25.5% to RMB164 million as compared to the first half of 2019.

Investment Trusts

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

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

(1) **Equity Investment Trusts:** The Company's equity investment trusts mainly invest in the equity of unlisted enterprises or trust business of other equity which may be invested as approved by the CBIRC with the funds of trust under the trust 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, close-end and open-end securities investment funds, enterprise bonds, treasury notes and related derivative products. The Company offers three major types of securities investment trusts: (i) management securities investment trusts, (ii) structured securities investment trusts, and (iii) bond markets trusts.

(3) **Indirect Investment Trusts:** The Company's indirect investment trusts do not directly invest in any particular class of assets (such as listed securities). Instead, such trusts subscribe to an asset management scheme initiated by a security firm or other financial institutions or limited partner interests in a limited partnership. The target asset management scheme or limited partnership then provide funding to counterparties in the form of the equity investment.

(4) **Family Trusts:** The Company can assist individual clients to achieve goals on wealth succession through the Company's family trusts. The Company's clients may entrust funds as well as other types of properties, such as real properties, equity interests, right to claim insurance benefits and financial products, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. As people in the PRC are becoming wealthier and the group of ultra-high-net-worth individuals ("**UHNWI**") has rapidly expanded, family trusts became widely recognised by UHNWIs due to advantage of family trusts in wealth succession, family affairs management, family risk management, family tradition succession and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 30 June 2020, the Company's family trust business has signed in aggregate a contract amount of RMB11.594 billion, of which the trust assets that have actually been delivered amounted to RMB11.179 billion, representing a year-on-year increase of 36.73%, thus continuing to secure a leading position in the industry. Since 2020, the Company actively researched and developed standard family trust products, so that we will become the first mover in developing standard family trust. The Company identified target customers and enhanced customer cohesiveness to expand its customer base and cultivate new profit growth engines for long-term stability of the Company. The Company's "De Shan Qi Jia Family Trust" (德善齊家系列家族信託) was awarded "Top 10 Family Trust Management Innovation Award by Securities" (十佳家族信託管理創新獎) by The Banker (《銀行家》), representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.

(5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing private and corporate wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen for them by the Company based on their respective investment needs. The trust agreements normally set forth the general scope of investment as set by the trustors, and the Company is granted with full discretion

on allocation of the trust assets. During the Reporting Period, the Company continued to exert effort on developing customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 30 June 2020, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB1.877 billion.

(6) **Other Trusts:** In addition to the above investment trusts, the Company also established other types of investment trusts, such as charitable trusts, which are manifestations of the Company's active performance for its corporate social responsibility. The Company's charitable trusts has gradually upgraded to a branded business model syndicating with the Company's family trust business. As at 30 June 2020, the Company managed six charitable trusts, with the AUM reaching approximately RMB65.2481 million.

As at 30 June 2019 and 30 June 2020, the Company had managed 647 and 651 investment trusts, respectively, with the AUM increasing by 0.7% from RMB68,270 million as at 30 June 2019 to RMB68,774 million as at 30 June 2020. Revenue from investment trusts for the first half of 2020 amounted to RMB298 million, representing an increase of 101.4% as compared to the first half of 2019.

Administrative Management Trusts

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

As at 30 June 2019 and 30 June 2020, the Company had managed 413 and 348 administrative management trusts, respectively, with the AUM decreasing by 5.0% from RMB138,131 million as at 30 June 2019 to RMB131,165 million as at 30 June 2020. In the first half of 2020, the income of the Company from administrative management trusts was RMB109 million, representing a flat as compared to the first half of 2019.

3.2.2 Proprietary Business

In the first half of 2020, in order to reasonably optimise the allocation of its own funds, expand the strategic planning layout of oversea business, and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the investment and loan linkage mechanism, and provided great support for the transformation and innovation of the "equity + debt" trust business. Secondly, the Company deeply participated in the establishment of venture capital fund, and proactively supported the Shandong's regional economic development and replacement of old growth drivers with new ones in a bid to seek proprietary business transformation and development, and foster new profit growth point. Thirdly, with a full awareness of the situation, the Company actively pushed forward the transformation for First-Trust Fund Management Co. Ltd. (泰信基金管理有限公司), the Company accelerated the withdrawal of financial equity such as Sinotruk Finance Co., Ltd. (中國重汽財務有限公司) and optimised the layout of the financial equity investment. Fourthly, with liquidity being assured, short term operations such as diversified investment, government bonds purchased under agreements to resell with liquidity, purchase of monetary fund and cash management trust schemes were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Fifthly, the Company further strengthened exchanges and communication with financial enterprises in Hong Kong, actively explored plans to open up domestic and overseas asset allocation channels, and laid a solid foundation for overseas businesses. The Company recorded the segment income of RMB705.5 million from its proprietary business in the first half of 2020, representing a year-on-year increase of 59.5%, mainly due to (i) an increase in interest income from RMB243.2 million in the first half 2019 to RMB386.3 million in the first half of 2020; (ii) an increase in investment income from RMB3.1 million in the first half of 2019 to RMB42.5 million in the first half of 2020; (iii) net gains on disposal of investment in associates of RMB54.9 million was recorded in the first half of 2020, no such gains was recorded in the first half of 2019; (iv) an increase in other operating income from RMB0.3 million in the first half 2019 to RMB27.2 million in the first half of 2020; and (v) an increase in share of profit of investments accounted for using the equity method from RMB61.8 million in the first half of 2019 to RMB140.1 million in the first half of 2020. The interest income, investment income, net gains on disposal of investment in associates, other operating income and share of profit of investments accounted for using the equity method are partially offset by a decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB133.9 million in the first half of 2019 to 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 the Company's proprietary business, the Company allocates the Company's proprietary assets into different asset classes and invests in businesses with strategic value for the Company's trust business in order to maintain and increase the value of the Company's proprietary assets. The Company manages and invests its proprietary assets according to the Company's annual assets allocation plans, which are formulated by the management of the Company and approved by the Board. The Company makes strategic long-term investments in a number of financial institutions, which helps to establish stronger business relationships with these financial institutions and create synergies for the Company's operations. The Company also invests the Company's proprietary assets in various types of equity products, such as listed shares and mutual funds, as well as wealth management products. The Company keeps a reasonable amount of its proprietary assets in highly liquid form, such as deposits at banks and other financial institutions and government bonds in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of its trust business.

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

	As at 30 June 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Investments in monetary assets	**330,610**	875,904
Deposit at banks	**180,810**	866,904
Government bonds purchased under agreements to resell	**149,800**	9,000
Securities Investments	**7,168,804**	6,177,811
Investment in equity products	**739,869**	645,436
Listed shares classified as:		
– financial assets at FVPL	**102,944**	47,007
Subtotal	**102,944**	47,007
Mutual funds classified as:		
– financial assets at FVPL	**636,925**	555,880
Subtotal	**636,925**	555,880
Equity investment in unlisted entities classified as financial assets at FVPL	**–**	42,549
Investment in wealth management products		
Investments in consolidated trust schemes	**4,637,090**	5,098,350
Investments in unconsolidated trust schemes and classified as financial investments measured at amortised cost	**966,553**	1,027
Investment in unconsolidated trust schemes classified as financial assets at FVPL	**662,187**	258,863
Asset management products	**163,105**	174,135
Long-Term Equity Investments	**1,606,882**	1,488,410
Investment accounted for using the equity method	**1,415,562**	1,309,906
Investment in financial assets classified as financial assets at FVPL	**191,320**	178,504
Proprietary Loans	**1,091,973**	1,295,271
Trust Industry Protection Fund	**100,070**	95,668
Total	**10,298,339**	9,933,064

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 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Investments in monetary assets		
—Deposit at banks	**180,810**	866,904
—Government bonds purchased under agreements to resell	**149,800**	9,000
Total	**330,610**	875,904

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Interest income generated from:		
—Deposit at banks	**1,251**	2,719
—Government bonds purchased under agreements to resell	**2,425**	3,941
Total	**3,676**	6,660

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 1.4% and 1.2% for the six months ended 30 June 2019 and 30 June 2020, respectively. The decrease in average investment return was attributable to the decrease in average investment amount of government bonds purchased under agreements to resell and fixed deposits placed in overseas banks of the Company in the first half of 2020.

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 month ended 30 June 2020	Year ended 31 December 2019 (Audited)
	(RMB in millions, except risk category)	
Risk category of underlying investments		
—Equity products	**High**	High
—Trust schemes	**Medium**	Medium
—Asset management products	**Medium**	Medium
Average investment balance(1)		
—Equity products	**692.7**	526.0
—Trust schemes	**5,812.0**	5,730.7
—Asset management products	**168.6**	153.8

Note:

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 31.7% from RMB526.0 million in 2019 to RMB692.7 million in the first half of 2020; the average balance of investments in trust schemes increased by 1.4% from RMB5,730.7 million in 2019 to RMB5,812.0 million in the first half of 2020; and the average balance of the Company's investments in asset management products increased by 9.6% from RMB153.8 million in 2019 to RMB168.6 million in the first half of 2020.

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 2020, 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 30 June 2020	Board seat	First investment date	Accounting treatment
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	Automobile financing	10.00%	Yes	September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	Insurance products and services	9.85%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	Commercial banking 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

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

	As at 30 June 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Long-term equity investments, accounted for:		
－As associate using the equity method	**1,415,562**	1,309,906
－Investment categorised as financial assets at FVPL	**191,320**	178,504
Total	**1,606,882**	1,488,410

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Dividend income generated from:		
－As associate using the equity method	**60,197**	43,355
－Investment categorised as financial assets at FVPL	**5,417**	–
Total	**65,614**	43,355

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 6.4% and 8.5% for six months ended 30 June 2019 and 30 June 2020, respectively. The increase in average return on long-term equity investments in the first half of 2020 as compared to that of the first half of 2019 was primarily due to the increase in dividend income from the associates of the Company in the first half of 2020.

Proprietary Loans

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. As at 31 December 2019 and 30 June 2020, the outstanding balance of the Company's proprietary loans were RMB1,295.3 million and RMB1,092.0 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 4.6% from RMB95.7 million as at 31 December 2019 to RMB100.1 million as at 30 June 2020.

3.3 Financial Overview

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income Analysis

In the first half of 2020, the net profit attributable to shareholders of the Company amounted to RMB514.3 million, which increased by RMB186.0 million as compared to the corresponding period of last year, representing an increase of 56.7%.

3.3.1 *Results of Operations*

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Fee and commission income	**571,351**	477,066
Interest income	**386,632**	243,701
Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value	**54,434**	133,862
Investment income	**42,520**	3,072
Net gains on disposal of investment in associates	**54,882**	–
Other operating income	**27,247**	314
Total operating income	**1,137,066**	858,015
Interest expenses	**(171,259)**	(85,581)
Staff costs (including directors and supervisors' emoluments)	**(78,986)**	(64,657)
Operating lease payments	**(4,198)**	(3,916)
Depreciation and amortisation	**(6,707)**	(5,004)
Change in net assets attributable to other beneficiaries of consolidated structured entities	**(25,089)**	(11,321)
Tax and surcharges	**(8,017)**	(5,100)
Auditor's remuneration	**(896)**	(896)
Loan impairment charges and other credit risk provision	**(312,580)**	(276,232)
Impairment losses on other assets	**(747)**	(5,045)
Other operating expenses	**(18,676)**	(30,953)
Total operating expenses	**(627,155)**	(488,705)
Share of profit of investments accounted for using the equity method	**140,148**	61,833
Profit before income tax	**650,059**	431,143
Income tax expense	**(135,791)**	(102,861)
Net profit attributable to shareholders of the Company	**514,268**	328,282

3.3.2 Total Operating Income

Fee and Commission Income

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Fee and commission income:		
Trustee's remuneration	**571,083**	476,889
Others	**268**	177
Total	**571,351**	477,066

The Group's fee and commission income in the first half of 2020 was RMB571.4 million, representing an increase of 19.8% as compared to RMB477.1 million in the first half of 2019. Such increase was primarily due to an increase in the Group's trustee's remuneration, which was caused by an increase in the average AUM of investment trusts (average of the beginning balance and the ending balance of AUM during the Reporting Period) of the Company in the first half of 2020.

Interest Income

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Interest income from:		
Cash and bank balance	**1,251**	2,719
Loans to customers	**377,572**	230,920
Financial investments – amortised cost	**2,679**	2,171
Financial assets purchased under resale agreements	**2,425**	3,941
Contribution to Trust Industry Protection Fund on behalf of borrowers	**2,705**	3,950
Total	**386,632**	243,701

The Group's interest income in the first half of 2020 was RMB386.6 million, representing an increase of 58.7% as compared to RMB243.7 million in the first half of 2019. Such increase was primarily due to an increase in the size of grant of loans in the consolidated trust scheme of interest income recorded by the Group in the first half of 2020, and the Group's interest income from loans to customers increased by 63.5% from RMB230.9 million in the first half of 2019 to RMB377.6 million in the first half of 2020.

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

Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value decreased from a gain of RMB133.9 million in the first half of 2019 to a gain of RMB54.4 million in the first half of 2020, primarily due to (i) the decrease in valuation of associates indirectly held by the Group through trust schemes measured at fair value; (ii) the decrease in valuation of trust schemes held by the Group measured at FVPL; and (iii) an increase in valuation of mutual funds held by the Group measured at FVPL affected by the capital market.

Investment Income

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Dividends income from:		
Financial assets at FVPL	**6,493**	–
Net realised gains from:		
Financial assets at FVPL	**36,027**	3,072
Total	**42,520**	3,072

The Group's investment income in the first half of 2020 was RMB42.5 million, representing an increase of RMB39.4 million as compared to RMB3.1 million in the first half of 2019. 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 2020.

Net gains on disposal of investment in associates

The net gains on disposal of the equity interests held by the specific consolidated structured entities measured at the equity method was RMB54.9 million in the first half of 2020, no such gains was recorded in the first half of 2019.

3.3.3 Total Operating Expenses

Interest Expenses

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

The Group's interest expenses in the first half of 2020 were RMB171.3 million, increased by 100.1% as compared to RMB85.6 million in the first half of 2019, 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). The 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) was primarily due to an increase in the loans scale granted by the Group's consolidated financing trust schemes in the first half of 2020 as compared to the first half of 2019 and a decrease in the proportion of proprietary funds inherent in such loans.

Staff Costs (including Directors and Supervisors' Emoluments)

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Salaries and bonuses	**70,948**	47,733
Pension costs (defined contribution plans)	**523**	3,349
Housing funds	**2,875**	3,165
Labour union fee and staff education expenses	**1,677**	3,488
Other social security and benefit costs	**2,963**	6,922
Total	**78,986**	64,657

The Group's staff costs in the first half of 2020 were RMB79.0 million, increased by 22.2% as compared to RMB64.7 million in the first half of 2019, primarily due to the increase in salaries and bonuses.

Impairment Losses on Assets

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Loan impairment charges and other credit risk provision		
—Loans to customers	**284,704**	246,026
—Financial investments – amortised cost	**33,952**	146
—Trustee's remuneration receivable	**(1,931)**	3,902
—Others	**(4,145)**	26,158
Sub-total	**312,580**	276,232
Impairment loss on other assets		
—Investment in artwork	**747**	2,712
—Investments accounted for using the equity method	**–**	2,333
Sub-total	**747**	5,045
Total	**313,327**	281,277

Loan impairment charges and other credit risk provision of the Group increased by 13.2% from RMB276.2 million in the first half of 2019 to RMB312.6 million in the first half of 2020, which was primarily due to the comprehensive impact of an increase in allowance for impairment of loans to customers and financial investments – amortised cost held by the Group, and a decrease in allowance for impairment of other credit assets.

Other Operating Expenses

The Group's other operating expenses decreased by 39.7% from RMB31.0 million in the first half of 2019 to RMB18.7 million in the first half of 2020, primarily due to the decrease in a foreign exchange loss in the first half of 2020.

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 126.7% from RMB61.8 million in the first half of 2019 to RMB140.1 million in the first half of 2020, 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	
	2020	2019
	(RMB in thousands)	
Profit before income tax	**650,059**	431,143
Operating margin[1]	**57.2%**	50.2%

Note:

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

As a result of the foregoing, the Group's profit before income tax increased by 50.8% from RMB431.1 million in the first half of 2019 to RMB650.1 million in the first half of 2020, and the Group's operating margin increased from 50.2% in the first half of 2019 to 57.2% in the first half of 2020.

Income Tax Expense

The Group's income tax expense increased by 32.0% from RMB102.9 million in the first half of 2019 to RMB135.8 million in the first half of 2020 primarily due to an increase in profit before income tax in the first half of 2020.

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

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Net profit attributable to shareholders of the Company	**514,268**	328,282
Net profit margin[(1)]	**45.2%**	38.3%

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 increased by 56.7% from RMB328.3 million in the first half of 2019 to RMB514.3 million in the first half of 2020. The Group's net profit margin increased from 38.3% in the first half of 2019 to 45.2% in the first half of 2020.

3.3.4 Segment Results of Operations

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Trust business:		
Operating income	**571,716**	477,558
Segment income	**571,716**	477,558
Proprietary business:		
Operating income	**565,350**	380,457
Share of profit of investments accounted for using the equity method	**140,148**	61,833
Segment income	**705,498**	442,290

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

	Six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Trust business	**(112,129)**	(105,054)
Proprietary business	**(515,026)**	(383,651)
Total operating expenses	**(627,155)**	(488,705)

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	
	2020	2019
	(RMB in thousands)	
Trust business	**459,587**	372,504
Proprietary business	**190,472**	58,639
Total profit before income tax	**650,059**	431,143

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	
	2020	2019
Trust business	**80.4%**	78.0%
Proprietary business	**27.0%**	13.3%

3.3.5 *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, operating lease payments, 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 increased by 23.4% from RMB372.5 million in the first half of 2019 to RMB459.6 million in the first half of 2020, primarily due to an increase of 19.7% in the segment income from the trust business from RMB477.6 million in the first half of 2019 to RMB571.7 million in the first half of 2020, partly offset by the segment operating expenses in the trust business increased by 6.7% from RMB105.1 million in the first half of 2019 to RMB112.1 million in the first half of 2020.

The increase in the segment income from the trust business was mainly due to an increase in the Group's fee and commission income from RMB477.1 million in the first half of 2019 to RMB571.4 million in the first half of 2020.

The increase in the segment operating expenses in the trust business was mainly due to an increase in staff costs from RMB62.4 million in the first half of 2019 to RMB76.8 million in the first half of 2020, while the other operating expenses decreased from RMB29.9 million in the first half of 2019 to RMB17.9 million in the first half of 2020.

As a result of the foregoing, the segment margin of the trust business increased from 78.0% in the first half of 2019 to 80.4% in the first half of 2020.

3.3.6 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 on behalf of borrowers, 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 investment 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 the Group's consolidated financing trust schemes expect to distribute to third-party beneficiaries, staff costs, depreciation and amortisation, change in net assets attributable to third-party beneficiaries of the Group's consolidated investment trust schemes, tax and surcharges and impairment losses on assets.

The segment profit before income tax for the Group's proprietary business increased by 224.8% from RMB58.6 million in the first half of 2019 to RMB190.5 million in the first half of 2020, primarily due to an increase of 59.5% in the segment income from the proprietary business from RMB442.3 million in the first half of 2019 to RMB705.5 million in the first half of 2020, partly offset by the segment operating expenses from the proprietary business increased by 34.2% from RMB383.7 million in the first half of 2019 to RMB515.0 million in the first half of 2020.

(1) The increase in the segment income from the proprietary business was mainly due to (i) an increase in interest income from RMB243.2 million in the first half 2019 to RMB386.3 million in the first half of 2020; (ii) an increase in investment income from RMB3.1 million in the first half of 2019 to RMB42.5 million in the first half of 2020; (iii) net gains on disposal of investment in associates of RMB54.9 million was recorded in the first half of 2020, no such gains was recorded in the first half of 2019; (iv) an increase in other operating income from RMB0.3 million in the first half 2019 to RMB27.2 million in the first half of 2020; and (v) an increase in share of profit of investments accounted for using the equity method from RMB61.8 million in the first half of 2019 to RMB140.1 million in the first half of 2020. The interest income, investment income, net gains on disposal of investment in associates, other operating income and share of profit of investments accounted for using the equity method are partially offset by the decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB133.9 million in the first half of 2019 to RMB54.4 million in the first half of 2020.

(2) The increase in segment operating expenses from the proprietary business was mainly due to (i) the increase in interest expenses from RMB85.6 million in the first half of 2019 to RMB171.3 million in the first half of 2020; (ii) an increase in the change in net assets attributable to other beneficiaries of consolidated structured entities from RMB11.3 million in the first half of 2019 to RMB25.1million in the first half of 2020 and (iii) the increase in loan impairment charges and other credit risk provision from RMB276.2 million in the first half of 2019 to RMB312.6 million in the first half of 2020.

As a result of the foregoing, the segment margin of the Group's proprietary business increased from 13.3% in the first half of 2019 to 27.0% in the first half of 2020.

3.3.7 *Selected Consolidated Financial Positions*

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

Assets

As at 31 December 2019 and 30 June 2020, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB14,572.3 million and RMB16,068.0 million, respectively, of which the total assets of the Company amounted to RMB11,200.6 million and RMB11,449.5 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments – amortised cost, (iv) financial assets at FVPL,(v) cash and bank balance, (vi) trustee's remuneration receivable, and (vii) financial assets purchased under resale agreements. As at 30 June 2020, the above-mentioned major assets accounted for 51.2%, 18.4%, 6.5%, 12.7%, 2.5%, 1.2% and 0.9%, respectively, of the total assets of the Group.

Loans to Customers

The following table sets forth the gross amount of the Group's loans to customers, 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 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Corporate loans – at amortised cost	**9,689,648**	9,027,180
Interest receivable	**95,290**	53,398
Less: Expected credit losses allowance – Loans	**(1,557,197)**	(1,276,128)
Expected credit losses allowance – Interest receivable	**(5,114)**	(1,479)
Loans to customers, net	**8,222,627**	7,802,971
Presented as:		
—Non-current assets	**5,437,618**	5,659,408
—Current assets	**2,785,009**	2,143,563
Loans to customers, net	**8,222,627**	7,802,971

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 most 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 decreased by 7.7% from RMB1,563.5 million as at 31 December 2019 to RMB1,443.4 million as at 30 June 2020. 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 2019 and 30 June 2020 were RMB742.5 million and RMB310.2 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,083.5 million and RMB1,159.2 million for these impaired loans as at 31 December 2019 and 30 June 2020, respectively, representing 69.3% and 80.3% 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 17.3% and 14.9% of the Group's gross loans to customers as at 31 December 2019 and 30 June 2020, respectively.

While the Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans, the Company does not regularly conduct such business. As at 30 June 2020, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 15.2% and 13.2% 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 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Corporate loans – at amortised cost	**1,471,898**	1,571,795
Interest receivable	**21,939**	13,976
Less: Expected credit losses allowance – Loans	**(401,018)**	(290,113)
Expected credit losses allowance – Interest receivable	**(846)**	(387)
Loans to customers, net	**1,091,973**	1,295,271
Presented as:		
—Non-current assets	**–**	1,281,682
—Current assets	**1,091,973**	13,589
Loans to customers, net	**1,091,973**	1,295,271

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.

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 and the associates of the

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

	Equity Interest as at 30 June 2020	As at 30 June 2020	As at 31 December 2019 (Audited)
		(RMB in thousands)	
Associates of the Company accounted for using the equity method:			
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	**16.68%**	**701,455**	658,056
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	**9.85%**	**212,899**	216,375
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	**10.00%**	**207,403**	198,755
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	**2.37%**	**109,999**	107,888
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	**45.00%**	**41,143**	47,469
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)	**18.60%**	**35,513**	–
Others		**107,150**	81,363
Gross amount		**1,415,562**	1,309,906
Less: Impairment allowance		**–**	–
Associates of the Company accounted for using the equity method, net		**1,415,562**	1,309,906
Associates of the Company's certain consolidated structured entities accounted for using the equity method:			
Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司)	**1.50%**	**676,609**	620,282
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)	–	–	50,758
Others		**71,633**	52,591
Gross amount		**748,242**	723,631
Less: Impairment allowance		**(10,000)**	(10,000)

	Equity Interest as at 30 June 2020	As at 30 June 2020	As at 31 December 2019 (Audited)
		(RMB in thousands)	
Associates of the Company's certain consolidated structured entities accounted for using the equity method, net		**738,242**	713,631
Associates indirectly held by the Group through trust schemes measured at fair value:			
Henan Liang Ding Property Co., Ltd. (河南梁鼎置業有限公司)	**35.00%**	**153,087**	153,087
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%**	**103,660**	119,087
Huangshi Liangsheng Real Estate Development Co., Ltd. (黄石梁晟房地產開發有限公司)	**28.00%**	**89,600**	89,600
Tianjin Liangxin Property Development Co., Ltd. (天津梁信房地產開發有限公司)	**40.00%**	**79,423**	87,546
Tianjin Liangshun Property Development Co., Ltd. (天津梁順房地產開發有限公司)	**40.00%**	**54,078**	72,174
Tengzhou Haide Park Property Co., Ltd. (滕州海德公園地產有限公司)	**20.20%**	**47,502**	53,980
Nanyang Zhongliang Chengtong Real Estate Co., Ltd. (南陽中梁城通置業有限公司)	**20.00%**	**44,680**	44,680
Ankang Liangsheng Foundation Real Estate Co., Ltd. (安康梁盛基業置業有限公司)	**20.00%**	**44,000**	–
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**	–
Weifang Hengru Real Estate Co., Ltd. (濰坊恒儒置業有限公司)	**15.00%**	**14,000**	–

	Equity Interest as at 30 June 2020	As at 30 June 2020	As at 31 December 2019 (Audited)
		(RMB in thousands)	
Shenzhen Qianhai Run Xin Investment Co., Ltd. (深圳前海潤信投資有限公司)	**30.00%**	**12,036**	12,654
Qingdao Tianyitianzhong Real Estate Development Co., Ltd. (青島天一天眾房地產開發有限公司)	**20.00%**	**10,800**	–
Total amount		**802,866**	752,808
Total		**2,956,670**	2,776,345

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 2020	As at 31 December 2019 (Audited)
	(RMB in thousands)	
Listed shares	**102,944**	47,007
Equity investments in unlisted entities	**208,460**	374,347
Mutual funds	**636,925**	564,448
Investments in trust schemes	**829,973**	264,500
Investments in Trust Industry Protection Fund	**100,070**	95,668
Other asset management products	**167,425**	178,455
Total	**2,045,797**	1,524,425

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 increased by 34.2% from RMB1,524.4 million as at 31 December 2019 to RMB2,045.8 million as at 30 June 2020, primarily due to the Group's (i) increase of the investments in trust schemes; (ii) increase of the investments in mutual funds; (iii) increase of the investments in listed shares; (iv) decrease of the equity investments in unlisted entities; and (v) decrease of the investments in other asset management products.

Cash and Bank Balance

As at 31 December 2019 and 30 June 2020, the Group's cash and bank balance amounted to RMB964.4 million and RMB398.9 million, respectively, of which RMB866.9 million and RMB180.8 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 10.6% from RMB214.1 million as at 31 December 2019 to RMB191.4 million as at 30 June 2020. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly interests, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 31 July 2020, 8.4% of the trustee's remuneration receivable was recovered.

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 bonds purchased under agreements to resell increased from RMB11.0 million as at 31 December 2019 to RMB149.8 million as at 30 June 2020. These changes were due to the flexible adjustment of the business scale of the Group'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 2019 and 30 June 2020, 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 pays to Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts.

The Company recorded the amounts of contribution funds it has paid on behalf of its counterparty clients as contribution to Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB540.0 million and RMB391.4 million as at 31 December 2019 and 30 June 2020, respectively, among which RMB349.5 million and RMB242.3 million were classified as non-current assets, and RMB190.5 million and RMB149.1 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 2019 and 30 June 2020, the Group's total liabilities amounted to RMB4,761.9 million and RMB5,998.6 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the Reporting Period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, dividend payable, income tax payable, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 30 June 2020, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, dividend payable, income tax payable, salary and welfare payable (both current and non-current portions) and other current liabilities accounted for 75.8%, 5.0%, 4.3%, 1.6%, 2.0% and 11.3% of the Group's total liabilities, respectively.

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

The net assets attributable to other beneficiaries of 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) increased by 33.5% from RMB3,404.7 million as at 31 December 2019 to RMB4,544.3 million as at 30 June 2020. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes

Income Tax Payable

The Group's income tax payable decreased by 49.3% from RMB186.4 million as at 31 December 2019 to RMB94.6 million as at 30 June 2020.

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 RMB296.1 million as at 31 December 2019 to RMB83.9 million as at 30 June 2020.

The Company's deferred trustee's remuneration decreased from RMB47.1 million as at 31 December 2019 to RMB23.3 million as at 30 June 2020.

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 of 30 June 2020, the outstanding VAT for trusts and the related surcharges amounted to RMB107.0 million.

Off-balance Sheet Arrangements

As at 30 June 2020, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

3.3.8 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 2019 and 30 June 2020, the Company had consolidated 58 and 58 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB9,514.2 million and RMB10,414.1 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 2020	As at 31 December 2019
Beginning:	**58**	51
Newly consolidated trust schemes	**5**	25
Deconsolidated trust schemes	**5**	18
Ending:	**58**	58

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 2020	As at 31 December 2019 (Audited)
	(RMB in millions)	
Total assets of the Company	**11,450**	11,201
Total assets of consolidated trust schemes	**10,414**	9,514
Consolidation adjustment	**(5,796)**	(6,143)
Total assets of the Group	**16,068**	14,572

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 2020	As at 31 December 2019 (Audited)
	(RMB in millions)	
Total liabilities of the Company	**1,463**	1,439
Total liabilities of consolidated trust schemes	**10,414**	9,514
Consolidation adjustment	**(5,878)**	(6,191)
Total liabilities of the Group	**5,999**	4,762

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 2020	As at 31 December 2019 (Audited)
	(RMB in millions)	
Total equity of the Company	**9,987**	9,762
Consolidation adjustment	**82**	48
Total equity of the Group	**10,069**	9,810

The consolidation of these trust schemes also significantly affected the Group's results of operations. For example, all trustees' remunerations the Company was entitled to from these consolidated trust schemes were eliminated as a result of consolidation and thereby reduced the Company's fee and commission income. In addition, the consolidation of these trust schemes increased the Group's interest income due to inclusion of interest income generated from loans granted by the

Group's consolidated trust schemes. It also increased the Group's interest expense which represented interest income of the Group's consolidated financing trust schemes that were expected to be distributed to third-party beneficiaries of such trust schemes. These impacts on income and expenses largely offset each other, the resulting impact on net profit attributable to the Company's shareholders has been reduced. The following table illustrates the impact on net profit attributable to the Company's shareholders resulting from the consolidation of these trust schemes during the Reporting Period:

	Six months ended 30 June	
	2020	2019
	(RMB in millions)	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	**480**	332
Impact of consolidation of trust schemes	**34**	(4)
Net profit attributable to the Group's shareholders after consolidation of trust schemes	**514**	328

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

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

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

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

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

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

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.

3.4 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.

3.4.1 Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) shareholders' general meeting; (2) the Board and its strategies and risk management committee, audit committee and business decision committee; (3) the board of supervisors of the Company(the "**Board of Supervisors**"); (4) General Manager's Office Meeting; (5) Trust Business Review Committee; (6) Trust Business Ad-hoc Issue Coordination Group and (7) other functional departments, including the Risk Control Department, Legal & Compliance Department, Operation Management Department, Planning and Finance Department, Information Technology Department, Business Supervision Department, Audit Department, Asset Disposition Department, Asset Management Department, Proprietary Business Management Department and Financial Investment Business Department. Finally, all Trust Business Departments of the Company (including Regional Business Units) are required to assume primary risk management responsibilities.

3.4.2 *Factors Affecting the Company's Results of Operations*

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

General Economic and Financial Market Conditions

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

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

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

Regulatory Environment

The Company's results of operations, financial condition and development prospects are affected by regulatory developments in the PRC. CBIRC, the main regulatory authority for the PRC trust industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. In April 2018, the People's Bank of China, the CBIRC, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to unify the regulatory standards of asset management business by product types, requiring, among other things, financial institutions including trust companies to carry out "de-channeling" and "reduce nested systems" in conducting the asset management business. In 2020, the CBIRC made clear requirements for the pressure drop of trust companies' channel business, insisting on the goal of "de-channeling", continuing to reduce channel business of trust companies 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.

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.

Competition

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

The Company also faces competition from other financial institutions. For the Company's financing trusts, the Company competes with other potential financing sources, such as commercial banks and investment banks, for the Company's counterparty clients and the intensity of competition from other financing sources will affect the number and quality of the Company's counterparty clients as well as the level of interest the Company can charge on financings to the Company's counterparty clients and thereby affect the Company's operating income and profitability. For the Company's investment trusts, the

Company competes with other financial institutions that provide assets and wealth management services. Given the changes of regulation policies on various financial sectors, financial institutions such as commercial banks, securities firms, fund management companies, private equity funds and insurance companies have diversified their assets and wealth management services. As such, the Company's ability to grow its investment trust business depends on the Company's ability to effectively compete with these financial institutions through offering a variety of trust products that are tailored to the different needs of the Company's trustor clients.

Interest Rate Environment

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

- Changes in lending rates may affect the comparative financing costs for the Company's counterparty clients from different financing sources and thereby affect their willingness to carry out financings through the Company's trust products;

- Changes in deposit interest rates may affect the comparative investment returns to the Company's trustor clients from different investment options and thereby affecting their willingness to invest in the Company's trust products;

- Changes in lending rates may affect the amount of interest income generated from loans provided to the Company's counterparty clients by the Company's trust schemes or itself using the Company's proprietary assets and thereby affecting the amount of the trustee's remuneration of the Company as well as the Company's interest income from consolidated trust schemes and its proprietary loans; and

- Changes in interest rates may also affect the value of various types of financial assets held by the Company's trust schemes or itself as proprietary assets. For example, an increase in interest rates may cause a decline in the market value of fixed-income securities and thereby reduce the net assets value of the trust schemes holding such securities or the Company's proprietary business.

3.4.3 *Credit Risk Management*

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

During the Reporting Period, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the CBIRC, under the leadership of the strategies and risk management committee of the Board and the senior management, the Company focused on facilitating the realisation of strategic goals by improving credit risk management system and system establishment and reinforcing risk management over key areas so as to control and mitigate credit risks.

Credit Risk Management on Trust Business

The credit risk of the Company's trust business mainly refers to the risk that the Company, as the trustee, fails to receive the Company's due remuneration which is agreed in the trust contracts. The majority of the Company's trusts are financing trusts, under which the failure of fulfilling the repayment obligations by the counterparty clients of the Company, or the ultimate financiers, will negatively affect the Company's ability to receive its remuneration. The Company assesses and manages such default risk through comprehensive due diligence, stringent internal approval and trust establishment procedures as well as ex-post inspections and monitoring. The Company obtains third party guarantee and collateral as credit enhancements in order to mitigate the default risk by financiers and the Company may ask for additional collaterals in case the value of the original collaterals become insufficient. Under circumstances where the Company assesses the likelihood of such default becomes relatively high, the Company may take necessary resolution and disposition measures in a timely manner to minimise the potential loss.

Credit Risk Management on Proprietary Business

The proprietary business of the Company mainly includes the Company's own debt and equity investments. The management of the Company had formulated an annual asset allocation plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board. The Company maintains a diversified investment portfolio for the Company's proprietary business and has established detailed internal risk management policies and procedures for each type of investment.

3.4.4 Market Risk Management

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

3.4.5 Liquidity Risk Management

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

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

3.4.6 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.

3.4.7 *Operational Risk Management*

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

3.4.8 *Reputational Risk Management*

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

3.4.9 *Other Risk Management*

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

3.4.10 Anti-money Laundering Management

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

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

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

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

3.5 Capital Management

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

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

The Company monitors its net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" (《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 2020, the Company's net capital was approximately RMB8.086 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB4.065 billion; the ratio of net capital to total risk-based capital was 198.91%, which is not lower than 100%; and the ratio of net capital to net asset was 80.95%, which is not lower than 40%.

3.6 Future Prospect

In the foreseeable future, as uncertainties lingered concerning the global pandemic and the world economy was double affected by both supply and demand, which exacerbated the risk of recession, regional financial risks accelerated and accumulated, leading to further reduction in the room for macroeconomic policies in major economies and huge uncertainties for economic development. While the pandemic brought unprecedented impacts to the socioeconomic development of our country, its overall effects were controllable, so the huge challenges faced in the short-term could not change the fundamentals of China's economic stability, long-term improvement, and high-quality development. China's financial industry will focus on the three major concepts of serving the real economy, preventing and controlling financial risks, and deepening financial reform while accelerating efforts to fully conduct the "stability on six fronts" and "security in six areas" campaigns and strengthening counter-cycle adjustment, in order to offer precise financial support for epidemic prevention and control, work resumption and the development of the real economy, and guarantee the accomplishment of the significant mission of poverty alleviation for the development of a well-off society. Following the new trends in the expansion and opening up of the financial sector, industrial regulatory requirements and valuable asset management industry development, the trust business will make use of the advantages of the trust system to speed up transformation and innovation, continue to increase support for the real economy, perfect its incentive mechanisms and promote the trust culture, thereby vigorously developing investment, service and wealth management businesses and constructing research and investment systems with the characteristics of trusts, in order to achieve a new round of high quality development in the sector.

4. PROFITS AND DIVIDENDS

The profit of the Company for the six months ended 30 June 2020 is set out in the "Management Discussion and Analysis – Financial Overview" in this interim results announcement.

As approved by the 2019 annual general meeting (the "**2019 AGM**") convened on 17 June 2020, the Company paid a cash dividend of RMB0.055 per share (tax inclusive) (the total dividend of approximately RMB256.2 million (tax inclusive)), on 12 August 2020, to holders of H shares and domestic shares whose names appear on the register of the members of the Company on 29 June 2020.

The Company will not declare the interim dividend for the year 2020.

5. USE OF PROCEEDS

The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 8 December 2017. A total of 647,075,000 H shares were issued in the global offering, including 588,250,000 H shares issued in the global offering and 58,825,000 H shares converted from domestic shares and offered for sale in the global offering. The offer price was HK$4.56 per H share. The nominal value is RMB1.00 per H share. After deduction of (i) the net proceeds from the sale of the sale shares by the selling shareholders in the global offering; and (ii) the underwriting commissions and other expenses in connection with the global offering, the net proceeds received by the Company from the global offering were approximately HK$2,560.3 million.

As at 30 June 2020, all proceeds were settled to the Company's domestic accounts, utilised in the manner set out in the prospectus of the Company dated 28 November 2017 and were collected in full together with the Company's existing proprietary assets for allocation to different assets classes, significantly increasing the Company's net capital.

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

As at the date of this interim results announcement, the compositions of the Board of Directors, the Board of Supervisors and senior management are as follows:

Members of the Board of Directors include Mr. Wan Zhong (chairman) and Mr. Yue Zengguang as executive Directors; Mr. Xiao Hua (vice chairman), 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.

Members of the Board of Supervisors include Mr. Guo Shougui (chairman of the Board of Supervisors), Mr. Hou Zhenkai, Mr. Chen Yong, Mr. Wu Chen, Ms. Wang Zhimei, and Mr. Guan Wei as shareholder representative Supervisors; Mr. Tian Zhiguo, Mr. Zuo Hui and Mr. Zhang Wenbin as employee representative Supervisors.

Members of the senior management include Mr. Yue Zengguang as the general manager, Ms. Zhou Jianqu as the vice general manager; Mr. He Chuangye as the vice general manager, the secretary to the Board and the joint company secretary; Mr. Wang Ping as the chief financial officer; Mr. Fu Jiguang as the chief risk management officer; and Mr. Niu Xucheng as the vice general manager.

Ms. Wang Bailing was elected as the non-executive Director of the Company at the 2019 first extraordinary general meeting held on 28 November 2019, and the qualification of Ms. Wang to act as the non-executive Director was approved by the Shandong Office of the China Banking and Insurance Regulatory Commission (the "**Shandong Office of CBIRC**") on 25 March 2020.

There was no change of Supervisors and senior management of the Company during the Reporting Period.

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

7. CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own corporate governance code. 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.

8. MODEL CODE FOR CONDUCTING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") specified in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions implemented by its Directors and Supervisors. After specific inquiries 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 has 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.

9. 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.

10. SIGNIFICANT EVENTS

10.1 Change of Registered Capital and Capital Structure and Change of Shareholding of Shareholders

On 11 February 2020, 46,800,000 domestic shares of the Company held by Jinan Energy Investment Co., Ltd. were auctioned off on a judicial auction and obtained by Shandong Lucion Investment Holdings Group Co., Ltd. ("**Lucion Group**"). This change of equity interest has been approved by the Shandong Office of CBIRC on 27 February 2020.

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

10.2 Change of Shareholding Structure of the Controlling Shareholder

On 9 January 2020, the registered capital of Lucion Group, the controlling shareholder of the Company, has increased from RMB3 billion to RMB11.5 billion, and the increased registered capital was fully contributed by Shandong Province Finance Bureau. Upon the capital increase, the registered capital of Lucion Group was RMB11.5 billion, of which RMB8.5 billion was contributed by Shandong Province Finance Bureau, representing 73.91% of the registered capital of Lucion Group, RMB2.1 billion was contributed by Shandong Provincial State-owned Assets Supervision and Administration Commission ("**Shandong SASAC**"), representing 18.26% of the registered capital of Lucion Group, RMB0.6 billion was contributed by Shandong Guohui Investment Co., Ltd. ("**Shandong Guohui**"), representing 5.22% of the registered capital of Lucion Group, and RMB0.3 billion was contributed by Shandong Provincial Council for Social Security Fund ("**Shandong SSF**"), representing 2.61% of the registered capital of Lucion Group. The controlling shareholder of Lucion Group has been changed from Shandong SASAC to Shandong Province Finance Bureau. Both Shandong Province Finance Bureau and Shandong SASAC are subordinates to the People's Government of Shandong Province.

The Company has also been informed by Lucion Group that it has received the waiver granted by the Executive of Corporate Finance Division, the Securities and Futures Commission of Hong Kong (the "**Executive**") to make the mandatory general offer to acquire all of the securities of the Company by Lucion Group and persons acting in concert with it due to such change of shareholding structure of the controlling shareholder under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**").

On 10 April 2020, the shareholding structure of Lucion Group has been further changed. Shandong SASAC and Shandong Guohui transferred 18.26% and 5.22% equity interest in Lucion Group held by them to Shandong Province Finance Bureau at nil consideration, respectively. Upon completion of the above transfers, Lucion Group is owned as to 97.39% by Shandong Province Finance Bureau and as to 2.61% by Shandong SSF. Shandong Province Finance Bureau remains to be the controlling shareholder of Lucion Group, while Shandong SASAC and Shandong Guohui has ceased to be shareholders of Lucion Group. The Company has also been informed by Lucion Group that the Executive has confirmed to Lucion Group that no general offer obligations for the shares of the Company will be triggered on the part of Shandong Province Finance Bureau as a result of the transfers pursuant to Rule 26 of the Takeovers Code.

Upon the above changes of the shareholding of the controlling shareholder, the shareholding in the Company held by Lucion Group, the controlling shareholder, remained unchanged (all of which are the domestic shares of the Company). Its nature as a state-owned shareholder has not changed. Its ultimate controller remains the People's Government of Shandong Province. The changes of the shareholding structure of Lucion Group does not have any impact on the operating activities of the Company.

10.3 Proposed Amendments to the Articles of Association

In accordance with the relevant requirements of the Reply of the State Council on the Adjustment of the Notice Period of the General Meeting and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No.97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019] 97號)) issued by the State Council of the PRC and the Interim Measures for Equity Management of Trust Companies (《信託公司股權管理暫行辦法》), the Company proposed to amend the relevant articles of the articles of association of the Company (the "**Articles of Association**") in relation to (i) the notice period of general meeting, the convening procedures and other matters; and (ii) establishment of the related party transaction control committee (the "**Proposed Amendments to the Articles of Association**"). The resolution on the Proposed Amendments to the Articles of Association was considered and approved by the shareholders at the 2019 AGM, the H shareholders class meeting (the "**H Shareholders Class Meeting**") and the domestic shareholders class meeting (the "**Domestic Shareholders Class Meeting**") of the Company dated 17 June 2020, and is subject to the approval by the Shandong Office of CBIRC.

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

10.4 Proposed Amendments to the Procedural Rules for the General Meeting and the Procedural Rules for the Board of Directors

Based on the Proposed Amendments to the Articles of Association, the Company proposed to amend correspondingly the terms of the procedural rules for the general meeting regarding the notice period and convening procedures of the general meeting (the "**Proposed Amendments to the Procedural Rules for the General Meeting**"), and the terms of the procedural rules for the Board of Directors regarding the committees under the Board of Directors (the "**Proposed Amendments to the Procedural Rules for the Board of Directors**"). The resolution on the Proposed Amendments to the Procedural Rules for the General Meeting was considered and approved by the shareholders at the 2019 AGM, the H Shareholders Class Meeting and the Domestic Shareholders Class Meeting. The resolution of the Proposed Amendments to the Procedural Rules for the Board of Directors was considered and approved by the shareholders at the 2019 AGM of the Company.

10.5 Material Legal Proceedings and Arbitration

As at 30 June 2020, the Company, being the plaintiff and applicant, was involved in 2 pending material litigations involving an amount of more than RMB10 million in dispute, and the value of the litigations in which the Company was involved was approximately RMB157.51 million in total. These litigations were mainly contract dispute.

As at 30 June 2020, the Company, being the defendant, was involved in 6 pending litigations, of which the amount in dispute was more than RMB10 million, the total value of the litigation in which the Company was involved amounted to RMB357.78 million. These litigations were mainly contract dispute.

10.6 Material Assets Acquisition, Sale and Merger

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

11. SUBSEQUENT EVENTS

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

12. EXTRACT OF INTERIM FINANCIAL STATEMENTS

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

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

12.1 Interim Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30 June** **2020** **(Unaudited)**	2019 (Unaudited)
Fee and commission income	2	**571,351**	477,066
Interest income	3	**386,632**	243,701
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	4	**54,434**	133,862
Investment income	5	**42,520**	3,072
Net gains on disposal of investment in associates		**54,882**	–
Other operating income		**27,247**	314
Total operating income		**1,137,066**	858,015
Interest expenses	6	**(171,259)**	(85,581)
Staff costs (including directors and supervisors' emoluments)	7	**(78,986)**	(64,657)
Operating lease payments		**(4,198)**	(3,916)
Depreciation and amortisation		**(6,707)**	(5,004)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**(25,089)**	(11,321)
Tax and surcharges		**(8,017)**	(5,100)
Auditor's remuneration		**(896)**	(896)
Loan impairment charges and other credit risk provision	8	**(312,580)**	(276,232)
Impairment losses on other assets	9	**(747)**	(5,045)
Other operating expenses		**(18,676)**	(30,953)
Total operating expenses		**(627,155)**	(488,705)

	Note	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Share of profit of investments accounted for using the equity method		**140,148**	61,833
Profit before income tax		**650,059**	431,143
Income tax expense	10	**(135,791)**	(102,861)
Net profit attributable to shareholders of the Company		**514,268**	328,282
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income from investments accounted for using the equity method		**985**	723
Total other comprehensive income, net of tax		**985**	723
Total comprehensive income attributable to shareholders of the Company		**515,253**	329,005
Basic and diluted earnings per share attributable to shareholders of the Company *(in RMB yuan)*	11	**0.11**	0.07
Total comprehensive income for the period attributable to shareholders of the Company arises from:			
Continuing operations		**515,253**	329,005
Discontinued operations		**–**	–

12.2 Interim Condensed Consolidated Statement of Financial Position

	Note	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**124,403**	126,522
Investment properties		**146,965**	148,825
Right-of-use assets		**1,143**	1,043
Intangible assets		**5,141**	5,829
Investments in associates	12	**2,956,670**	2,776,345
Financial assets at fair value through profit or loss	16	**789,876**	912,970
Loans to customers	13	**5,437,618**	5,659,408
Financial investments-amortised cost	14	**983,972**	18,541
Advance payments		**21,492**	25,326
Deferred income tax assets		**240,560**	230,110
Other non-current assets		**251,547**	359,503
Total non-current assets		**10,959,387**	10,264,422
Current assets			
Cash and bank balance	15	**398,930**	964,424
Financial assets at fair value through profit or loss	16	**1,255,921**	611,455
Financial assets purchased under resale agreements		**149,800**	11,026
Loans to customers	13	**2,785,009**	2,143,563
Financial investments-amortised cost	14	**63,299**	60,828
Trustee's remuneration receivable		**191,371**	214,056
Other current assets		**264,332**	302,516
Total current assets		**5,108,662**	4,307,868
Total assets		**16,068,049**	14,572,290

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Equity and liabilities			
Share capital	17	**4,658,850**	4,658,850
Capital reserve	17	**143,285**	143,285
Statutory surplus reserve		**845,282**	845,282
Statutory general reserve		**834,036**	834,036
Other reserves		**120**	(865)
Retained earnings		**3,587,856**	3,329,825
Total equity		**10,069,429**	9,810,413
Liabilities			
Non-current liabilities			
Salary and welfare payable		**32,461**	48,899
Lease liabilities		**138**	346
Net assets attributable to other beneficiaries of consolidated structured entities		**3,765,977**	2,647,623
Total non-current liabilities		**3,798,576**	2,696,868
Current liabilities			
Short-term borrowings		**300,000**	320,000
Lease liabilities		**816**	708
Salary and welfare payable		**90,164**	61,961
Net assets attributable to other beneficiaries of consolidated structured entities		**778,281**	757,118
Income tax payable		**94,570**	186,357
Dividend payable		**260,611**	4,374
Other current liabilities		**675,602**	734,491
Total current liabilities		**2,200,044**	2,065,009
Total liabilities		**5,998,620**	4,761,877
Total equity and liabilities		**16,068,049**	14,572,290

13. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

General

Shandong International Trust Co., Ltd. ("**Shandong Trust**" or "**the Company**") is a non-bank financial institution incorporated in Shandong Province, the People's Republic of China (the "**PRC**") on 10 March 1987 with the approval from People's Bank of China ("**PBOC**") and Shandong Provincial Government. In August 2002, the Company was transformed from a wholly state-owned company to a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi ("**RMB**") 2,000,000,000 (RMB 1 each per registered and issued share). On 8 December 2017, the Company completed its public offering on The Stock Exchange of Hong Kong Limited and increased its share capital to RMB 2,588,250,000. Pursuant to the resolution of 2018 Special General Meeting on 19 October 2018, the Company converted the capital surplus into ordinary shares in the proportion of 8 shares for every 10 shares held. The Company completed the conversion on 8 January 2019 and the amount of share capital was increased to RMB 4,658,850,000.

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

The Company and its consolidated structured entities are collectively referred to as "the Group".

1 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

1.1 Basis of preparation

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

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

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statement. Accordingly, it should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**").

Except as described below, the Group's accounting policies applied in preparing the interim condensed consolidated financial information are consistent with those policies applied in preparing the financial statements for the year ended 31 December 2019 and the corresponding interim reporting period.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) New standards, amendments and interpretations effective after 1 January 2020 and have not been early adopted by the Group

A number of new standards, amendments to standards and interpretations are effective for period beginning after 1 January 2020, and have not been early adopted in preparing the interim financial information. None of these are expected to have a material effect on the financial information of the Group.

1.2 Critical accounting estimates and judgements

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are consistent with these policies applied in preparing the financial statements for the year ended at 31 December 2019.

2 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
Trustee's remuneration	**571,083**	476,889
Others	**268**	177
Total	**571,351**	477,066

3 INTEREST INCOME

	Six months ended 30 June	
	2020	2019
Interest income from:		
Cash and bank balance	**1,251**	2,719
Loans to customers	**377,572**	230,920
Financial investments-amortised cost	**2,679**	2,171
Financial assets purchased under resale agreements	**2,425**	3,941
Contribution to Trust Industry Protection Fund on behalf of borrowers	**2,705**	3,950
Total	**386,632**	243,701

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

	Six months ended 30 June	
	2020	2019
Net changes in fair value arising from:		
Financial assets at fair value through profit or loss		
－Listed shares	**14,995**	5,478
－Mutual funds	**99,013**	53,756
－Trust schemes	**(21,682)**	32,750
－Unlisted companies	**12,816**	18,090
－Other asset management products	**(1,966)**	(3,090)
	103,176	106,984
Investment in associates	**(48,742)**	26,878
Total	**54,434**	133,862

5 INVESTMENT INCOME

	Six months ended 30 June	
	2020	2019
Dividends income from:		
Financial assets at fair value through profit or loss	**6,493**	–
Net realised gains from:		
Financial assets at fair value through profit or loss	**36,027**	3,072
Total	**42,520**	3,072

6 INTEREST EXPENSES

	Six months ended 30 June	
	2020	2019
Interest for borrowings from China Trust Protection Fund Co., Ltd.	**9,348**	15,787
Interest for placement from banks	**80**	1
Third-party beneficiaries' interests *(i)*	**161,831**	69,793
Total	**171,259**	85,581

(i) These interests represent 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 statement of financial position.

7 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Six months ended 30 June	
	2020	2019
Salaries and bonuses	**70,948**	47,733
Pension costs (defined contribution plans)	**523**	3,349
Housing funds	**2,875**	3,165
Labour union fee and staff education expenses	**1,677**	3,488
Other social security and benefit costs	**2,963**	6,922
Total	**78,986**	64,657

8 LOAN IMPAIRMENT CHARGES AND OTHER CREDIT RISK PROVISION

	Six months ended 30 June	
	2020	2019
Loans to customers	**284,704**	246,026
Financial investments-amortised cost	**33,952**	146
Trustee's remuneration receivable	**(1,931)**	3,902
Others	**(4,145)**	26,158
Total	**312,580**	276,232

9 IMPAIRMENT LOSSES ON OTHER ASSETS

	Six months ended 30 June	
	2020	2019
Investment in artwork	**747**	2,712
Investments accounted for using the equity method	**–**	2,333
Total	**747**	5,045

10 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
Current income tax	**146,241**	154,905
Deferred income tax	**(10,450)**	(52,044)
Total	**135,791**	102,861

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

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

	Six months ended 30 June	
	2020	2019
Profit before income tax	**650,059**	431,143
Tax calculated at a tax rate of 25%	**162,515**	107,786
Tax effect arising from income not subject to tax *(i)*	**(28,234)**	(13,653)
Tax effect of expenses that are not deductible for tax purposes	**1,510**	8,728
Income tax expense	**135,791**	102,861

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

11 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	
	2020	2019
Net profit attributable to shareholders of the Company	**514,268**	328,282
Weighted average number of ordinary shares in issue	**4,658,850**	4,658,850
Basic earnings per share	**0.11**	0.07

(b) Diluted earnings per share

For the six months ended 30 June 2020 and 2019, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

12 INVESTMENTS IN ASSOCIATES

The amounts recognised in the interim condensed consolidated financial information are as follows:

	30 June 2020	31 December 2019
Associates of the Company, measured at equity accounting		
Fullgoal Fund Management Co., Ltd.	**701,455**	658,056
Taishan Property & Casualty Insurance Co., Ltd.	**212,899**	216,375
Shandong HOWO Auto Finance Co., Ltd.	**207,403**	198,755
Dezhou Bank Co., Ltd.	**109,999**	107,888
First-Trust Fund Management Co., Ltd.	**41,143**	47,469
Tailong Health Industry Investment Company Limited	**35,513**	–
Others	**107,150**	81,363
Gross amount	**1,415,562**	1,309,906
Less: Impairment allowance	**–**	–
Associates of the Company, net	**1,415,562**	1,309,906
Associates of the Company's certain consolidated structured entities, measured at equity accounting		
Shandong Provincial Financial Asset Management Co., Ltd.	**676,609**	620,282
Tailong Health Industry Investment Company Limited	**–**	50,758
Others	**71,633**	52,591
Gross amount	**748,242**	723,631
Less: Impairment allowance	**(10,000)**	(10,000)
Associates of the Company's certain consolidated structured entities, net	**738,242**	713,631

	30 June 2020	31 December 2019
Associates indirectly held by the Group through trust schemes, measured at fair value		
Henan Liang Ding Property Co., Ltd.	**153,087**	153,087
Huizhou Zhengfeng Industrial Investment Co., Ltd.	**120,000**	120,000
Cangzhou Liangsheng Property Development Co., Ltd.	**103,660**	119,087
Huangshi Liangsheng Real Estate Development Co., Ltd.	**89,600**	89,600
Tianjin Liangxin Property Developement Co., Ltd.	**79,423**	87,546
Tianjin Liangshun Property Development Co., Ltd.	**54,078**	72,174
Tengzhou Haide Park Property Co., Ltd.	**47,502**	53,980
Nanyang Zhongliang Chengtong Real Estate Co., Ltd.	**44,680**	44,680
Ankang Liangsheng Foundation Real Estate Co., Ltd.	**44,000**	–
Yunnan Hongshan City Investment Development Co., Ltd.	**30,000**	–
Weifang Hengru Real Estate Co., Ltd.	**14,000**	–
Shenzhen Qianhai Run Xin Investment Co., Ltd.	**12,036**	12,654
Qingdao Tianyitianzhong Real Estate Development Co., Ltd.	**10,800**	–
Gross amount	**802,866**	752,808
Total	**2,956,670**	2,776,345

13 LOANS TO CUSTOMERS

(a) Analysis of loans to customers:

	30 June 2020	31 December 2019
Corporate loans – at amortised cost	**9,689,648**	9,027,180
Interest receivable	**95,290**	53,398
Less: ECL allowance – Loans	**(1,557,197)**	(1,276,128)
ECL allowance – Interest receivable	**(5,114)**	(1,479)
Loans to customers, net	**8,222,627**	7,802,971
Presented as:		
Non-current assets	**5,437,618**	5,659,408
Current assets	**2,785,009**	2,143,563
Loans to customers, net	**8,222,627**	7,802,971

(b) Movement of corporate loans

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	7,463,694	–	1,563,486	9,027,180
Additions	2,568,000	–	–	2,568,000
Repayments	(1,785,400)	–	(120,132)	(1,905,532)
Transfers:	(1,279,150)	1,279,150	–	–
Transfer from Stage 1 to Stage 2	(1,279,150)	1,279,150	–	–
Balance as at 30 June 2020	6,967,144	1,279,150	1,443,354	9,689,648

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	5,631,500	676,500	1,375,391	7,683,391
Additions	6,346,850	–	–	6,346,850
Repayments	(4,514,656)	–	(488,405)	(5,003,061)
Transfers:	–	(676,500)	676,500	–
Transfer from Stage 2 to Stage 3	–	(676,500)	676,500	–
Balance as at 31 December 2019	7,463,694	–	1,563,486	9,027,180

(c) Movements of ECL allowance – Loans

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Balance as at 1 January 2020	192,591	–	1,083,537	1,276,128
Provision for impairment	33,798	–	–	33,798
Reversal of impairment allowances	(25,957)	–	(52,516)	(78,473)
Transfers:	(30,881)	30,881	–	–
Transfer from Stage 1 to Stage 2	(30,881)	30,881	–	–
EAD, PD and LGD changes *(i)*	38,500	159,066	128,178	325,744
Balance as at 30 June 2020	208,051	189,947	1,159,199	1,557,197

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Balance as at 1 January 2019	108,968	21,137	470,319	600,424
Provision for impairment	146,063	–	593,381	739,444
Reversal of impairment allowances	(60,400)	–	(1,300)	(61,700)
Transfers:	–	(21,137)	21,137	–
Transfer from Stage 2 to Stage 3	–	(21,137)	21,137	–
EAD, PD and LGD changes *(i)*	(2,040)	–	–	(2,040)
Balance as at 31 December 2019	192,591	–	1,083,537	1,276,128

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

14 FINANCIAL INVESTMENTS – AMORTISED COST

(a) Analysis of financial investments – amortised cost:

	30 June 2020	31 December 2019
Financial investments – amortised cost, gross *(i)*	**1,093,297**	93,297
Interest receivable	**3,631**	1,777
Less: ECL allowance – Financial investments – amortised cost	**(49,552)**	(15,656)
ECL allowance – Interest receivable	**(105)**	(49)
Financial investments – amortised cost, net	**1,047,271**	79,369
Presented as:		
Non-current assets	**983,972**	18,541
Current assets	**63,299**	60,828
Financial investments – amortised cost, net	**1,047,271**	79,369

(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) Movements of principals

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	79,000	–	14,297	93,297
Additions	–	1,000,000	–	1,000,000
Balance as at 30 June 2020	79,000	1,000,000	14,297	1,093,297

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	111,600	–	19,714	131,314
Additions	27,600	–	–	27,600
Repayments	(60,200)	–	(5,417)	(65,617)
Balance as at 31 December 2019	79,000	–	14,297	93,297

(c) Movements of ECL allowance

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Balance as at 1 January 2020	1,359	–	14,297	15,656
Provision for impairment	–	34,461	–	34,461
EAD, PD and LGD changes	(565)	–	–	(565)
Balance as at 30 June 2020	794	34,461	14,297	49,552

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Balance as at 1 January 2019	1,262	–	13,087	14,349
Provision for impairment	459	–	1,210	1,669
Reversal of impairment allowances	(672)	–	–	(672)
EAD, PD and LGD changes	310	–	–	310
Balance as at 31 December 2019	1,359	–	14,297	15,656

15 CASH AND BANK BALANCE

(a) Cash and bank balance

	30 June 2020	31 December 2019
Cash in hand	**2**	15
Cash at banks	**398,928**	964,409
Total	**398,930**	964,424

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

	30 June 2020	31 December 2019
Cash in hand	**2**	15
Cash at banks	**398,928**	964,409
Total	**398,930**	964,424

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020	31 December 2019
Equity investments		
Listed shares	102,944	47,007
Unlisted entities	208,460	374,347
Mutual funds	636,925	564,448
Investments in trust schemes	829,973	264,500
Investments in Trust Industry Protection Fund *(i)*	100,070	95,668
Other asset management products *(ii)*	167,425	178,455
Total	2,045,797	1,524,425
Presented as:		
Non-current assets	789,876	912,970
Current assets	1,255,921	611,455
Financial assets at fair value through profit or loss, net	2,045,797	1,524,425

(i) In accordance with the notice "Administrative rule of Trust Industry Protection Fund" jointly issued by the CBRC and Ministry of Finance of the PRC ("**MOF**") on 10 December 2014 (YJF[2014]No. 50) and relevant requirements in the notice issued by the CBRC on 25 February 2015 (YJBF[2015]No. 32) concerning Detailed Procedures of Collection and Administration of Trust Industry Protection Fund, trust companies in China are required to make contributions to the Trust Industry Protection Fund ("**the Fund**") that was established and managed by China Trust Protection Fund Co., Ltd., a company established jointly by China Trust Association and certain trust companies in China. The amount of contributions to the Fund consists of the following components:

- 1% of the trust company's net assets at the end of proceeding financial year as each trust company's own contribution;

- 1% of total proceeds received from issuance of each trust product. For financing trust schemes, the Fund is subscribed by the borrower through the trust company; For trust products which invest in standardised financial products, the Fund is contributed by the trust company;

- For non-cash asset related trust products, the Fund is contributed by the trust company at 5% of total trustee's remuneration.

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

(ii) The amounts mainly represent the Group's investments in certain asset management products managed by third parties.

17 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Company issued are fully paid common shares. The par value per share is RMB 1 Yuan. The Company's shares are as follows:

	30 June 2020	31 December 2019
Number of shares authorised and issued *(in thousands)*	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.

As of 30 June 2020, the Group's capital reserve is shown as follows:

	30 June 2020	31 December 2019
Share premium	122,797	122,797
Others	20,488	20,488
Total	143,285	143,285

18 DIVIDENDS

	Six months ended 30 June	
	2020	2019
Dividend declared during the period	**256,237**	377,367

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) have 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 the China Accountant Standards and IFRS.

19 SUBSEQUENT EVENTS

The Group has no material events that requires additional disclosure after 30 June 2020.

14. AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and conventions adopted by the Company with the management of the Company and the Company's external auditors. The Audit Committee has reviewed the interim results for the six months ended 30 June 2020.

15. THE INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020 PUBLISHED ON THE HONG KONG STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

The interim results announcement for the six months ended 30 June 2020 is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.sitic.com.cn). The interim report for the six months ended 30 June 2020 which contains all information required by the relevant Listing Rules will be distributed to shareholders of the Company and published on the Hong Kong Stock Exchange's website and the Company's website in due course.

By order of the Board
Shandong International Trust Co., Ltd.
WAN Zhong
Chairman

Jinan, the People's Republic of China, 25 August 2020

As at the date of this announcement, the Board comprises Mr. Wan Zhong and Mr. Yue Zengguang as executive Directors; Mr. Xiao Hua, 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.