



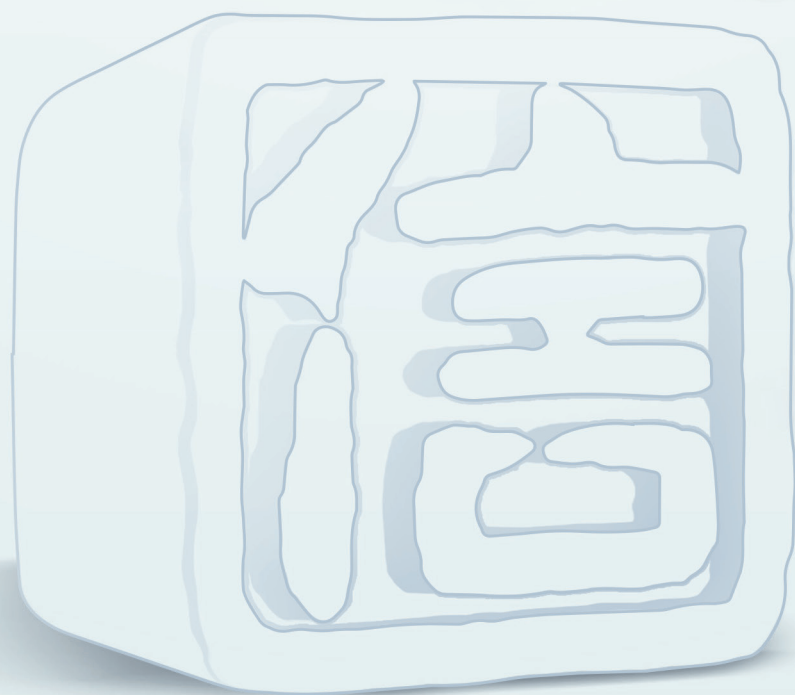
**LUCION**

**山東省國際信託股份有限公司**

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

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

Stock Code: 1697



**2020**

**ANNUAL REPORT**

# CONTENT

Important Notice	2
Company Profile	3
Basic Corporate Information	4
Major Financial Indicators	8
2020 Major Events	10
Chairperson's Statement	12
General Manager's Statement	14
Management Discussion and Analysis	16
Changes in Share Capital and Shareholdings of Substantial Shareholders	71
Details of Directors, Supervisors and Senior Management	75
Corporate Governance Report	90
Report of the Board of Directors	120
Report of the Board of Supervisors	135
Significant Events	139
Additional Information Disclosure Required by CBIRC	143
Independent Auditor's Report	153
Definitions	263
Glossary of Technical Terms	268



# IMPORTANT NOTICE

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

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

The 2020 annual report (2020 annual results announcement) of the Company was considered and approved by the 27th meeting of the second session of the Board of Directors on 31 March 2021. 8 directors were entitled to be present at the meeting and 7 directors attended the meeting in person.

The 2020 financial report, which has been prepared by the Company according to the Chinese Accounting Standards and IFRS, was audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所特殊普通合夥) and PricewaterhouseCoopers in accordance with the Chinese and International standards on auditing, respectively, and they have issued the standard audit reports without qualified opinion.

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

*The Board of*  
**Shandong International Trust Co., Ltd.**

31 March 2021

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

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

# COMPANY PROFILE

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

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

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

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

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

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

# BASIC CORPORATE INFORMATION

<b>Legal name (in Chinese)</b>	山東省國際信託股份有限公司
<b>Abbreviation in Chinese</b>	山東國信
<b>Legal name (in English)</b>	Shandong International Trust Co., Ltd.
<b>Abbreviation in English</b>	SITC
<b>Legal representative</b>	Wan Zhong (萬眾)
<b>Authorised representatives</b>	Wan Zhong (萬眾) Lee Kwok Fai, Kenneth (李國輝)
<b>Secretary to the Board</b>	He Chuangye (賀創業)
<b>Joint company secretaries</b>	He Chuangye (賀創業) Lee Kwok Fai, Kenneth (李國輝)
<b>Registered office</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
<b>Head office in the PRC</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
<b>Postal code</b>	250013
<b>E-mail address</b>	ir1697@luxin.cn
<b>Internet website</b>	<a href="http://www.sitic.com.cn">http://www.sitic.com.cn</a>



# BASIC CORPORATE INFORMATION

<b>Principal place of business in Hong Kong</b>	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
<b>Senior management responsible for information disclosure</b>	He Chuangye (賀創業)
<b>Contact person for information disclosure matter</b>	Yuan Fang (袁方)
<b>Telephone number</b>	(0531) 86566593
<b>Facsimile number</b>	(0531) 86566593
<b>E-mail address</b>	ir1697@luxin.cn
<b>Media for information disclosure</b>	Shanghai Securities News
<b>Website of Hong Kong Stock Exchange for publishing the annual report for H Shares</b>	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
<b>Place for maintaining annual report</b>	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
<b>Place of listing of H Shares</b>	The Stock Exchange of Hong Kong Limited
<b>Stock name</b>	SDITC
<b>Stock code</b>	1697
<b>H Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong, PRC



# BASIC CORPORATE INFORMATION

## **Audit Committee**

Ding Huiping (丁慧平) (*Chairperson*)  
Jin Tongshui (金同水)  
Meng Rujing (孟茹靜)

## **Business Decision Committee**

Wan Zhong (萬眾) (*Chairperson*)  
Jin Tongshui (金同水)  
Yue Zengguang (岳增光)

## **Human Resources and Nomination Committee**

Wan Zhong (萬眾) (*Chairperson*)  
Ding Huiping (丁慧平)  
Meng Rujing (孟茹靜)

## **Remuneration Committee**

Meng Rujing (孟茹靜) (*Chairperson*)  
Jin Tongshui (金同水)  
Yen Huai-chiang (顏懷江)

## **Strategies and Risk Management Committee**

Wan Zhong (萬眾) (*Chairperson*)  
Xiao Hua (肖華)  
Yue Zengguang (岳增光)

## **Trust Committee**

Yen Huai-chiang (顏懷江) (*Chairperson*)  
Yue Zengguang (岳增光)  
Wang Bailing (王百靈)

## **Related Party Transaction Control Committee**

Ding Huiping (丁慧平) (*Chairperson*)  
Yue Zengguang (岳增光)  
Wang Bailing (王百靈)

# BASIC CORPORATE INFORMATION

**Legal Advisor (as to PRC laws)**

**Place of business**

Fangda Partners  
24/F, HKRI Centre Two, HKRI Taikoo Hui  
288 Shi Men Yi Road  
Shanghai, PRC

**Legal Advisor (as to Hong Kong laws)**

**Place of business**

Fangda Partners  
26th Floor, One Exchange Square  
8 Connaught Place  
Central, Hong Kong, PRC

**International Auditor**

**Place of business**

PricewaterhouseCoopers  
*(Certified Public Accountants and Registered Public Interest Entity Auditor)*  
22/F, Prince's Building  
Central, Hong Kong

**PRC Auditor**

**Place of business**

PricewaterhouseCoopers Zhong Tian LLP  
PricewaterhouseCoopers Center, 2 Corporate Avenue  
202 Hu Bin Road, Huangpu District  
Shanghai, PRC

**Name of the undersigned accountant**

Lee Chung Bor (李松波)

**Principal Bank**

China Citic Bank  
Quancheng Road Sub-branch  
No. 166 Jiefang Road, Lixia District  
Jinan, Shandong Province  
PRC



# MAJOR FINANCIAL INDICATORS

## FINANCIAL DATA

	As at and for the year ended 31 December				
	2020	2019	2018	2017	2016
Data at the end of the Reporting Period (RMB in millions)					
Total assets	<b>20,684</b>	14,572	13,612	12,902	8,648
Fee and commission income	<b>1,152</b>	1,038	891	1,130	828
Interest income	<b>717</b>	530	648	491	455
Total operating income	<b>2,306</b>	1,887	1,695	1,648	1,327
Change in net asset attributable to other beneficiaries of consolidated structured entities	<b>(17)</b>	(0.5)	(20)	2	1
Total operating expenses	<b>1,942</b>	1,133	700	696	389
Operating profit before income tax	<b>733</b>	878	1,127	1,119	1,077
Segment assets					
Proprietary business	<b>19,358</b>	13,241	12,372	11,655	7,557
Trust business	<b>1,147</b>	997	1,214	1,202	912
Unallocated assets <sup>(1)</sup>	<b>179</b>	334	26	45	179
Segment liabilities					
Proprietary business	<b>10,320</b>	4,678	3,989	3,715	2,220
Trust business	<b>183</b>	71	67	38	85
Unallocated liabilities <sup>(1)</sup>	<b>6</b>	13	15	2	2

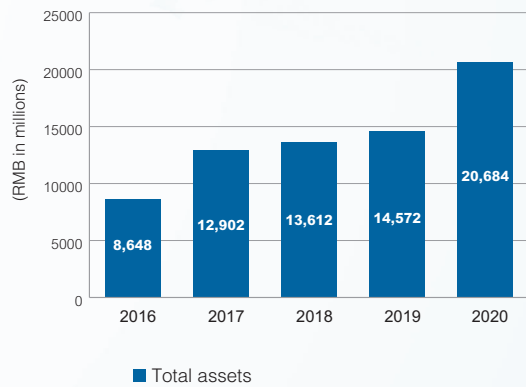
Note :

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

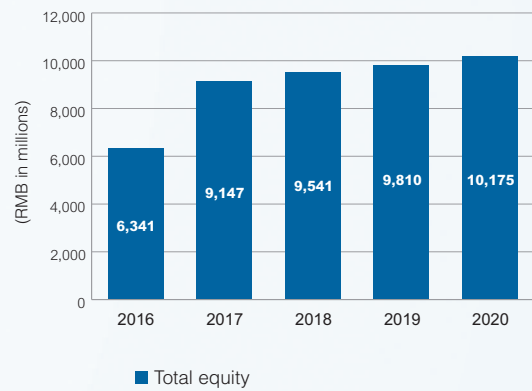
# MAJOR FINANCIAL INDICATORS

## FINANCIAL INDICATORS

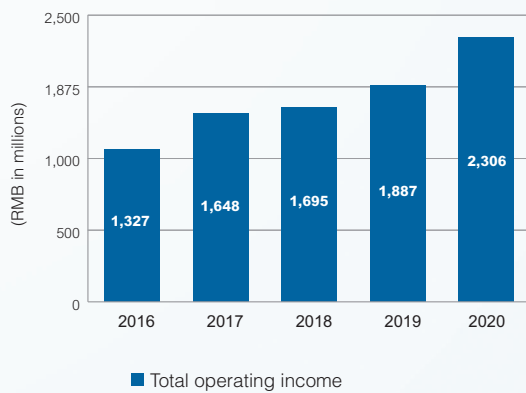
Total assets



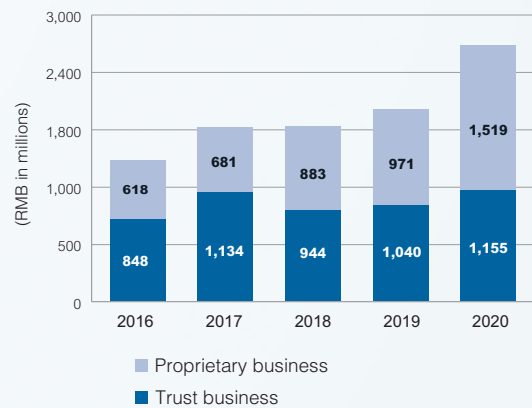
Total equity



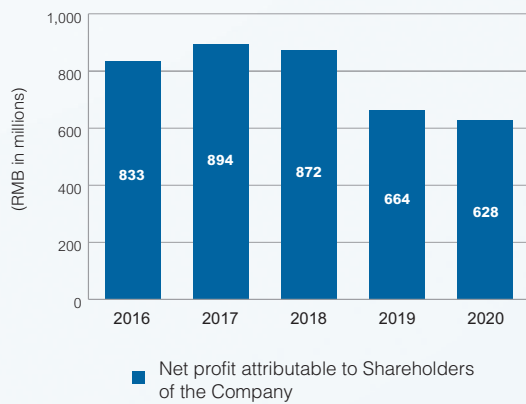
Total operating income



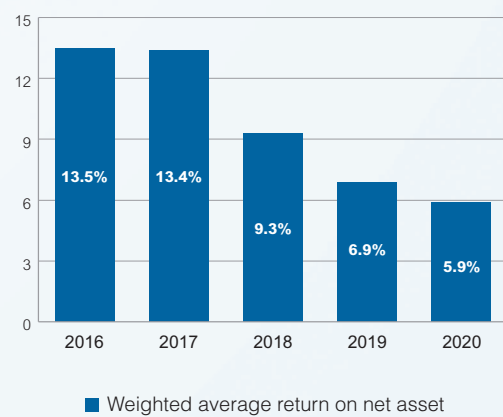
Income in business segment



Net profit attributable to Shareholders of the Company



Weighted average return on net asset



# 2020 MAJOR EVENTS

## January

SITC materialised its first insurance fund investment collective fund trust business. The establishment of the project is a major breakthrough in the cooperation between the Company and the insurance company, which is of great significance to promoting the cooperation between the Company and the insurance company and promoting the transformation of the Company.

## March

SITC was selected into the list of "Integrity Financial Brands in Shandong Province" for 2020 by Dazhong Daily, and "SITC APP" was selected as "3 • 15 Top Ten Popular Mobile APP with Integrity".



## April

SITC held the 2019 annual results release conference in the form of teleconference and live webcast roadshow and the Company's management interacted with investors and media on issues they concerned.



SITC scientifically coordinated the work arrangements during the pandemic, earnestly fulfilled the social responsibilities of state-owned financial institutions, organised employee volunteer team and facilitated to win the battle against the COVID-19 pandemic with practical actions.



## February



SITC and the Shandong Provincial Committee of Jiusan Society held a grand signing ceremony of "Shandong Trust – Datong Series – Jiusan Shandong Poverty Alleviation Charity Trust" in Jinan.

## June

# 2020 MAJOR EVENTS

## July

SITC, as the trustee, signed and launched a family trust of “De Shan Qi Jia – School Establishment Series”, which marked the new breakthrough in the family trust brand of “De Shan Qi Jia”.

## October

SITC was invited to participate in 2020 China Economic Wealth Summit Forum themed with “Economic Dual Circulation and Wealth New Ecology”, sponsored by China Business Journal, and won the “2020 Excellent Trust Company Award”.



## December



SITC was successfully selected into the list of “2020 Shandong Social Responsibility Enterprises” in the event of “2020 Shandong Social Responsibility Enterprises” jointly sponsored by Dazhong News Group and Federation of Industry and Commerce of Shandong Province.

SITC invited medical experts who fought against the COVID-19 at the first front line from Jinan Central Hospital to the moral lecture themed with “Paying Tribute to Anti-Pandemic Heroes and Enhancing Model Influence”.

SITC has officially established Shandong business unit, focusing on serving the Shandong regional economic development and improving the regional financial supply.



The first “Anxin” series of personal wealth management business of SITC successfully signed and implemented, and the transformation of the Company's wealth management has made substantive steps.

SITC won the “The China Awards Programme in 2020 – Best Customer Relationship Management Award” issued by The Asian Banker.

## August



SITC was awarded the “Best Information Disclosure Award of the Year” in the event of “Best Listed Company in Greater China in 2020” sponsored by Gelonghui.

## November

# CHAIRPERSON'S STATEMENT



A handwritten signature in black ink, consisting of stylized Chinese characters, positioned to the right of the portrait.

**Wan Zhong**  
*Chairperson of the Board*





# CHAIRPERSON'S STATEMENT

2020 was an extraordinary year, and a critical year when SITC accelerated the promotion of its reform and innovation, promoted transformation and upgrading, and strived to build a high-quality development layout. In the face of the complex and severe macroeconomic situation and increasingly harsh regulatory environment under the impact of the COVID-19 pandemic, the Company always adhered to the general principle of "seeking progress while maintaining stability and enhancing quality while seeking progress", focused on the center, served the overall situation, forged ahead in the face of difficulties and took the initiative to achieve new results in various work. The Company's main operating indicators are in line with expectations. The Company remarkably enhanced the quality and efficiency of its business, improved its risk prevention and control system, continuously solidified the foundation of its compliant operations, and further bolstered its governance system to maintain a stable and healthy development momentum. The above-mentioned achievement stemmed from the careful guidance of the regulatory departments, the staunch support of our shareholders, customers and partners, and the joint efforts of our staff as a whole.

In 2020, facing the multiple challenges of the COVID-19 pandemic, slowing macroeconomic growth, fierce competition in the asset management market, and overall tightening of industry supervision, the Board of Directors further emancipated the mind, adjusted development strategies in a timely manner, and sought breakthroughs on key issues and open up a new situation on shortcomings. We insisted on leading high-quality development with high-quality party building, stuck to the positioning as a trustee, kept in mind the mission of supporting the high-quality development of the real economy and satisfying people's desire for a better life, and firmly moved toward the direction of national encouragement, regulatory approval, and industry expectations. We insisted on reform and innovation, resolutely returned to the origin of trust, optimised and strengthened traditional advantageous businesses, and accelerated the deployment of standard product businesses. The scale of innovative businesses such as family trusts, consumer trusts, bond trusts, consumer finance had grown steadily, the marketing system has been improving. Substantial steps have been taken in the transformation of wealth management, and the quality and efficiency of inherent business operations have been significantly improved. We insisted on improving the ability of information technology to support and lead, strengthened technological empowerment, accelerated the filling of shortcomings in financial technology, improved service efficiency, reduced operating costs, improved customer experience, and continuously enhanced the competitiveness of products and services. We adhered to the initial mission of "gathering capital to develop Shandong", persisted in serving the overall situation, focused on the conversion of old growth drivers to new growth drivers, and the three major strategies of tackling tough challenges, and gave full play to the synergy of resources to ensure the financial supply in the province. We continuously promoted our three-system reform, deepened the construction of trust culture, focused on the improvement of employees' professional skills and professionalism, and actively explored the professional manager system; comprehensively strengthened the building of risk control capabilities, continuously optimised the risk control model, resolutely mitigated the increment of risk, and handled the stock of risks prudently.

In 2021, the COVID-19 pandemic will continue to be the biggest uncertainty. The multi-competitive landscape of the era of large asset management is taking shape, and the transformation and development of the trust industry has entered a deep-water zone. Based on the new development stage, we will implement the new development concept, build a new development pattern, take the promotion of high-quality development as the theme, reform and innovation as the fundamental driving force, and serve the real economy as the fundamental goal, strengthen confidence, face difficulties, and ensure "The 14th Five-Year Plan" has a good start. We will strengthen our political determination, stick to the right direction, consolidate responsibilities, and achieve new breakthroughs in improving the quality of party building; continuously stimulate endogenous motivation, persist in innovation-driven, transformation and upgrade, and achieve new breakthroughs in the transformation of development; continue to release development vitality, persist in taking the initiative to serve the overall situation, and achieve new breakthroughs in boosting economic development; give full play to the power of the system, adhere to the red line awareness and bottom line thinking, and achieve new breakthroughs in building a strong risk control line; effectively gather talents, adhere to people-oriented and cultural leadership, and achieve new breakthroughs in strengthening team building.

It is the hardship that mirrors our courage and persistence while it is the polish and practice that make a jade shine. SITC is at a critical stage of high-quality development. We will further strengthen our confidence, work hard and win decisively, and strive to build a new pattern of high-quality development!

Finally, on behalf of the Board of Directors of SITC, I would like to express my heartfelt gratitude to the people from all walks of life who have always cared about and supported the development of the Company, and Mr. Yue Zengguang for his important contribution during his tenure as executive Director and general manager of the Company.

31 March 2021

# GENERAL MANAGER'S STATEMENT



岳增光

**Yue Zengguang**

*Executive Director and General Manager <sup>(1)</sup>*

Note: (1) Resigned as General Manager on 31 March 2021.



# GENERAL MANAGER'S STATEMENT

In 2020, in the face of the complicated situation formed by the impact of COVID-19 pandemic, macroeconomic downturn, tighter regulatory policies and increasingly competitive asset management market, SITC has adhered to the general tone of making progress while remaining stable and put its full effort on business management while implementing the normalisation of pandemic prevention and control work. In terms of operation and management, the Group has promoted high-quality development with the reform of the system and business innovation, and generally showed a steady development trend.

As at the end of 2020, consolidated assets of the Company amounted to RMB20.684 billion, with consolidated liabilities of RMB10.509 billion and consolidated owner's equity of RMB10.175 billion; consolidated profit of the year amounted to RMB733 million with net profit attributable to the parent company's shareholders of RMB628 million. As at the end of 2020, the trust scale under the trusteeship of the Company was RMB248.697 billion, and the annual trustee's remuneration fee income was RMB1.152 billion, representing a year-on-year increase of 11.0%.

The Company would not have made such achievements without the strong leadership of the Party Committee and the Board of SITC, the devotion and contributions of the staff, the trust and favour of the investors, and the support and care of all shareholders and partners. On behalf of the senior management of the Company, I would like to express my heartfelt gratitude to all of you.

In 2020, while strictly implementing the measures for normalisation of pandemic prevention and control work, SITC has conscientiously adjusted its structure, controlled risks, made reforms and promoted management in accordance with the requirements of supervision, which has made the traditional business, "Ballast Stone", more stable, and gradually established the "New Standard" for the transformation of business; the diversification of product distribution channels has been expanded, and the transformation of wealth management has been steadily promoted; the construction of trust culture has been carried out in depth, and the reform of the "three systems" has made a deep breakthrough; the defense of risk management have been fully developed, and the protection of consumer rights and interests as well as brand building have become increasingly well-developed. The income-generating capacity of the Company from trust assets has continued to improve, and the development momentum has been steadily increasing. The Company has been steadily moving forward on the road of achieving high-quality development.

The year 2021 marks the 100th anniversary of the establishment of the Communist Party of China, which is also the concluding year for China to secure a decisive victory in achieving its first centenary goal and the beginning of China's 14th Five-Year Plan. It is also a crucial year for SITC to promote reform and transformation and achieve high-quality development. The management of SITC will work together with all staff to persistently fulfil all strategic deployments of the Party Committee and the Board, uphold the work requirements of "achieving growth among stability", and carry out the construction of the trust culture in line with trust supervision and market orientation. In the process of reform and business transformation, the Company will motivate the enterprise's endogenous motive force, comprehensively enhance the information technology leading capability, comprehensive risk management capability, professional asset management capability and comprehensive management service capability, and accelerate the establishment of a new high-quality development pattern.

Success only favours those who struck the water in venturing midstream and boldly forge ahead. We will undertake the glorious mission of SITC in transforming and innovating, strengthen the confidence in transformation and the joint efforts in reform, strive to build an integrated cross-border financial service organisation, support the high-quality development of the real economy with higher quality services, satisfy the people's yearning for a better life, and make better performance to return customers, society and the shareholders.

31 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## ENVIRONMENT OVERVIEW

In 2020, affected by the COVID-19 pandemic, the global economy experienced the worst recession since World War II. Advanced economies implemented extremely loose monetary policies and large-scale fiscal stimulus plans, and the economy has recovered in a certain extent since the second half of the year. Meanwhile, the impact of the COVID-19 pandemic has triggered an increase in financial sustainability risks and hidden financial risks, which have also had a profound impact on the global economic structure, international trade and investment. Facing the extremely complex and severe internal and external situation under the impact of the pandemic, the whole country has made concerted efforts to coordinate COVID-19 pandemic prevention and control while working on economic and social development to achieve major strategic results. The “13th Five-Year Plan” has successfully concluded, and the victory of building a well-off society in an all-round way is in sight. Our Country’s economic operation has been recovering steadily, industrial production has continued to develop, consumption and investment have steadily rebounded, export momentum is strong, and the employment situation is generally stable. It will become the only major economy in the world to achieve positive economic growth in 2020.

China’s financial industry has implemented the decisions and deployments of the Party Central Committee and the State Council, faced difficulties and acted proactively, resolutely made achievements in financial services for pandemic prevention and control, focused efforts on the “stability on six fronts<sup>1</sup>”, carried out measures for the “security in six areas<sup>2</sup>”, and strongly supported the steady national economic recovery, further improved the adaptability and flexibility of financial supply to the real economy, promoted the reduction of social financing costs, and created a suitable financial environment to ensure the completion of a decisive victory and the completion of a well-off society in an all-round way.

Under the guidance of regulatory agencies, the trust industry followed the overall requirements for coordinating pandemic prevention and control and economic and social development, with supply-side structural reforms as the main line, focused on supporting the implementation of major national development strategies, supported the development of advanced manufacturing, supported the weak links of economic and social development, supported the expansion of domestic demand and other aspects of business expansion, served the high-quality development of the real economy, and helped build a new development landscape with domestic and international cycles as the main body and mutual promotion of domestic and international dual circulation. As of the end of 2020, the trust assets balance under management by the trust industry in China amounted to RMB20.49 trillion, with a continual steady decrease in the AUM, however, trust companies has made further improvement in their business structure and active management capabilities.

<sup>1</sup> “Six fronts” are employment, finance, foreign trade, foreign investment, domestic investment and market expectation.

<sup>2</sup> “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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

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

In 2020, the Company insisted to focus on improving the quality of its main business, firmly revisit the fundamentals, accelerate transformation and innovation, and effectively improve the quality and efficiency of serving the real economy. The Company maintained an overall stable operation. Firstly, the Company focused on enhancing foundation and improving quality for principal business and accelerated the promotion of transformation and innovation. The Company actively followed the regulatory guidance and market change, adhered to enhance foundation and improve foundation for principal business, continued to optimise its business structure, continuously enhanced its active management capabilities, continuously improved and strengthened its traditional superior businesses, vigorously developed innovative businesses such as family trusts, bonds, consumer finance, and accelerated the deployment of standard trust businesses. The allocation of inherent assets had become more reasonable. Equity investment in real estate projects, the securities market, and private equity investment businesses had achieved better returns, and the synergistic development effect with the trust business had continued to increase, focused on national and regional development strategies such as the three major battles and conversion of old growth drivers to new growth drivers, leveraged the synergy of resources, effectively increased regional financial supply, supported the development of physical enterprises, and helped prevent and control the COVID-19 pandemic through the introduction of social funds, industrial funds, and subscription of COVID-19 pandemic prevention and control debts. Secondly, the Company continuously expanded funding channels and accelerated the transformation of wealth management. The Company established a new institutional wealth management team and multiple marketing outlets, and initially formed a “multi-level, wide-coverage, and professional” marketing system; the personal wealth management business based on account management was successfully implemented, and the wealth management transformation took substantial steps; the SITC APP was officially launched, and the electronic signing rate reached 100%; a number of financial institutions’ agency sales channels were added, and diversified fund-raising channels continued to expand. Thirdly, the Company built a comprehensive risk management line of defense and accelerated the disposal of non-performing assets. Combining with the new changes and characteristics of regulatory policies, businesses and risks, the Company strived to build a multi-dimensional and multi-level risk management system, continuously improved the risk control system, optimised the risk control model, tightened project management, and speeded up the disposal of non-performing assets. Fourthly, the Company carried out the construction of trust culture steadily, and the internal control and compliance system became more perfect. The Company formulated trust culture construction plans and plans, regularly share legal briefs, and actively organised employees to participate in online classes, public welfare lectures, case prevention knowledge examinations, trust knowledge contests and other activities to promote the development of trust culture in depth. The Company strengthened the audit supervision and supervision mechanism, strengthened the risk investigation and special audit of key areas, and further improved the internal control and compliance system.

# MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the Group achieved operating income with an amount of RMB2,305.6 million, representing a year-on-year increase of 22.2%; net profit attributable to shareholders of the Company was RMB627.8 million, representing a year-on-year decrease of 5.4%, mainly due to the year-on-year increase of fee and commission income, interest income, investment income, net gains on disposal of associates and share of profit of investments accounted for using the equity method, which was partially offset by the year-on-year decrease of net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, and the year-on-year increase of interest expenses and impairment losses of financial assets.

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 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:

	Year ended 31 December			
	2020		2019	
	Amount	%	Amount	%
<i>(RMB in thousands, except for %)</i>				
<b>Trust business</b>				
Operating income	1,155,078	43.19%	1,039,816	51.72%
Segment income	1,155,078	43.19%	1,039,816	51.72%
<b>Proprietary business</b>				
Operating income	1,150,552	43.02%	846,850	42.12%
Share of profit of investments accounted for using the equity method	368,874	13.79%	123,705	6.16%
Segment income	1,519,426	56.81%	970,555	48.28%
<b>Total</b>	<b>2,674,504</b>	<b>100.00%</b>	<b>2,010,371</b>	<b>100.00%</b>

In 2020, the income from the trust business and proprietary business of the Group accounted for 43.2% and 56.8% of the total revenue of the Group, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trust Business

In 2020, the Company actively responded to the impact of the COVID-19 pandemic, the domestic economic situation and changes in the regulatory policy environment. Faced with the pressure of shrinking trust scale under a strict regulatory, the Company continued to optimise the trust business structure, resolutely returned to the origin of trust, accelerated the deployment of standard product business, vigorously developed innovative business, and actively cultivated new business growth points. Firstly, the Company insisted on the consolidation of capital and innovation, and achieved remarkable results in business transformation and innovation. The Company complied with regulatory requirements, optimised and strengthened traditional businesses, actively deployed standard product businesses, and accelerated business transformation and development. The Company continued to deepen the traditional advantages of business, the quality of the active management business of the combination of equity and debt increased; the scale of innovative businesses such as bonds, family trusts, consumer finance, cash management and ABS increased significantly, and the income contribution steadily increased. Secondly, the Company deepened the strategic cooperation of inter-industry institutions, and the scope of the “circle of friends” continued to expand. The Company strengthened the linkage with high-quality institutions such as securities companies, private equity fund management companies, and gather resources for the development of the standard product business; deepened strategic cooperation in financial inter-bank channels, continuously improved service quality and efficiency, and achieved growth with breakthrough in the scale of bond business; family trust business had opened up a number of commercial bank channel resources to further consolidate a solid foundation for long-term sustainable and stable development. The third was the orderly expansion of diversified fund-raising channels and the solid progress of wealth management transformation. A new institutional wealth management team and two marketing outlets were newly established, and the “521” sales system was initially formed. The company’s first “Anxin” series of personal wealth management business had been successfully implemented, and the transformation of wealth management had taken substantial steps. The SITC APP was officially launched, and the electronic signing rate reached 100%. A number of new commercial bank agency agencies have been added, and diversified fund-raising channels have continued to expand. The fourth was to implement the smart trust strategy in depth, and used information technology to promote the transformation and development of the Company. The Company accelerated the launch of new systems and modules to support business transformation and innovation, gradually improved the functions of the SITC Wealth Management Platform to realise sales mobilisation support, built a family trust electronic signing module, completed the reconstruction and upgraded of the asset management system, started the construction of an intelligent risk control system, promoted the automated valuation of the standard product business, and further improved supporting capabilities of information systems.

In 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 RMB257,664 million as at 31 December 2019 to RMB248,697 million as at 31 December 2020, and the total number of trusts were 1,202 and 1,137, respectively, as at the respective dates. In 2020, the Company achieved income of trust business amounted to RMB1,155.1 million, indicating a year-on-year growth of 11.1 percentage points. During the Reporting Period, revenue from the actively managed trust amounted to RMB898 million, accounting for 78.0% of the fee and commission income of the total income from trust business and indicating a year-on-year growth of 1.2 percentage points.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Classification of Trusts*

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

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

- (1) **Financing trusts:** Under this type of trust, in addition to providing trust administration services for the capital end, the Company is actively involved in the ongoing management and disposal of the trust assets in the asset end, and focus on satisfying the financing needs of its counterparties. The Company's financing trusts provide flexible financial service 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 trust assets, and focused on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of equity investment trusts, securities investment trusts, indirect investment trusts, family trust and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients.
- (3) **Administrative management trusts:** In administrative management trusts, the trustors have the discretion on the management, use and disposal of 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 31 December			
	2020		2019	
	Number	AUM	Number	AUM
<i>(AUM: RMB in millions)</i>				
Financing trusts	176	70,117	150	37,524
Investment trusts	655	19,865	663	72,153
Administrative management trusts	306	158,715	389	147,987
<b>Total</b>	<b>1,137</b>	<b>248,697</b>	<b>1,202</b>	<b>257,664</b>

*Note:* At the end of 2020, the statistical caliber of some trust plans was adjusted according to regulatory requirements, and some investment trusts were adjusted to financing trusts.

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

	Year ended 31 December			
	2020		2019	
	Revenue	%	Revenue	%
<i>(Revenue: RMB in millions)</i>				
Financing trusts	635	55.12	387	37.28
Investment trusts	263	22.83	410	39.50
Administrative management trusts	254	22.05	241	23.22
<b>Total</b>	<b>1,152</b>	<b>100.00</b>	<b>1,038</b>	<b>100.00</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Financing Trusts*

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

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

## *Investment Trusts*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

- (1) Equity Investment Trusts:** The Company's equity investment trusts mainly invest in the equity of unlisted enterprises or trust business of other equity which may be invested as approved by the CBIRC with the funds of trust under the trust plan.
- (2) Securities Investment Trusts:** The Company's securities investment trusts mainly invest in entrusted funds in combinations of publicly traded securities, including equity securities traded on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and inter-bank bond market throughout the country, closed-end and open-end securities investment funds, enterprise bonds, treasury notes and related derivative products. The Company offers three major types of securities investment trusts: (i) management securities investment trusts, (ii) structured securities investment trusts, and (iii) bond markets trusts.
- (3) Indirect Investment Trusts:** The Company's indirect investment trusts do not directly invest in any particular class of assets (such as listed securities). Instead, such trusts subscribe to an asset management scheme initiated by a security firm or other financial institutions or limited partner interests in a limited partnership. The target asset management scheme or limited partnership then provide funding to counterparties in the form of the equity investment.
- (4) Family Trusts:** The Company can assist individual clients in achieving goals on wealth succession through the Company's family trusts. The Company's clients may entrust funds as well as other types of properties, such as real properties, equity interests, right to claim insurance benefits and financial products, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. Due to the increasing wealth of PRC citizens and the rapid increase in number of ultra-high-net-worth individuals ("UHNWI"), family trusts became widely recognised by UHNWIs due to the advantage of family trusts in wealth succession, family affairs management, family risk management and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 31 December 2020, the Company's family trust business has signed in aggregate a contract amount of RMB14.95 billion, of which the trust assets that have actually been delivered amounted to RMB14.525 billion, representing a year-on-year increase of 43.81%, thus continuing to secure a leading position in the industry. Since 2020, the Company actively became 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 the long-term stability of the Company. The Company's "De Shan Qi Jia Series Family Trust" (德善齊家系列家族信託) was awarded "2020 Best Family Trust Scheme" (2020年度優秀家族信託計劃) by Securities Times (《證券時報》), representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing its private wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen 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 the customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 31 December 2020, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB1.899 billion.
- (6) **Other Trusts:** In addition to the above investment trusts, the Company also established other types of investment trusts, such as charitable trusts, which are products of the Company's active performance for its corporate social responsibility. The Company's charitable trusts enhanced the branding of the Company as its business development model and to integrate the business development model with the Company's family trust business. As at 31 December 2020, the Company managed 7 charitable trusts, with the AUM reaching approximately RMB66.54 million. In 2020, the "Jiahelu Charitable Trust" (嘉和路慈善信託) established by the Company was awarded "2020 Best Charitable Trust Scheme" (2020年度優秀慈善信託計劃) by "Securities Times" (《證券時報》).

## *Administrative Management Trusts*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Proprietary Business

In 2020, in order to reasonably optimise the allocation of its own funds, accelerate 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 continuously strengthened the investment 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, the Company assessed the situation, actively promoted the transformation and development of First-Trust Fund Management Co., Ltd., completed the equity transfer of China Heavy Duty Truck Finance Co., Ltd., and optimised the layout of financial equity investment. Fourthly, with liquidity being assured, short term operations such as diversified investment, efficient use of liquid funds for short-term operations such as reverse repurchase of government bonds, investment in 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, and laid a solid foundation for overseas businesses. The Company recorded the segment income of RMB1,519.4 million from its proprietary business in 2020, representing a year-on-year increase of 56.6%, mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) net gains on disposal of associates increased from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income in 2020 was RMB53.9 million (among which RMB51.4 million is government subsidy), and only a small amount of such income was generated in 2019; and (v) an increase in share of profit of investments accounted for using the equity method from RMB123.7 million in 2019 to RMB368.9 million in 2020. The interest income, investment income, net gains on disposal of 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 RMB300.0 million in the 2019 to RMB126.6 million in 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 its proprietary assets into different asset classes and invests in businesses with strategic value for the Company’s trust business in order to maintain and increase the value of its proprietary assets. The Company manages and invests its proprietary assets according to its annual assets allocation plans, which are formulated by the management of the Company and approved by the Board. The Company makes strategic long-term investments in a number of financial institutions, which helps to establish stronger business relationships with these financial institutions and create synergies for its operations. The Company also invests its proprietary assets in various types of equity products, such as listed shares and mutual funds, as well as wealth management products. The Company keeps a reasonable amount of its proprietary assets in highly liquid form, such as deposits at banks and other financial institutions and government bonds in order to maintain the Company’s liquidity and satisfy capital requirement for the expansion of its trust business.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Investments in monetary assets</b>	<b>730,299</b>	875,904
Deposits at banks	<b>47,042</b>	866,904
Other monetary fund	<b>651,807</b>	–
Government bonds purchased under agreements to resell	<b>31,450</b>	9,000
<b>Securities Investments</b>	<b>6,048,721</b>	6,177,811
<i>Investment in equity products</i>	<b>708,842</b>	645,436
<i>Listed shares classified as:</i>		
– financial assets at FVPL	<b>90,395</b>	47,007
Subtotal	<b>90,395</b>	47,007
Mutual funds classified as:		
– financial assets at FVPL	<b>618,447</b>	555,880
Subtotal	<b>618,447</b>	555,880
Equity investment in unlisted entities classified as financial assets at FVPL	–	42,549
<i>Investment in wealth management products</i>		
Investments in our consolidated trust schemes	<b>5,132,481</b>	5,098,350
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortised cost	–	1,027
Investment in unconsolidated trust schemes classified as financial assets at FVPL	<b>104,640</b>	258,863
Asset management products	<b>102,758</b>	174,135
<b>Long-Term Equity Investments</b>	<b>1,932,383</b>	1,488,410
Investment accounted for using the equity method	<b>1,642,703</b>	1,309,906
Investment classified as financial assets at FVPL	<b>289,680</b>	178,504
<b>Proprietary Loans</b>	<b>993,950</b>	1,295,271
<b>Trust Industry Protection Fund</b>	<b>100,116</b>	95,668
<b>Total</b>	<b>9,805,469</b>	9,933,064

# MANAGEMENT DISCUSSION AND ANALYSIS

## Monetary Assets

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

	As at 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Investment in monetary assets</b>		
– Deposit at banks	47,042	866,904
– Other monetary fund	651,807	–
– Government bonds purchased under agreements to resell	31,450	9,000
<b>Total</b>	<b>730,299</b>	875,904

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Interest income generated from:</b>		
– Deposit at banks	4,131	4,782
– Government bonds purchased under agreements to resell	6,326	8,912
<b>Total</b>	<b>10,457</b>	13,694

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 1.5% and 1.3% for the years ended 31 December 2019 and 31 December 2020, respectively.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Securities Investments

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

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in millions, except risk category)</i>	
<b>Risk category of underlying investments</b>		
– Equity products	<b>High</b>	High
– Trust schemes	<b>Medium</b>	Medium
– Asset management products	<b>Medium</b>	Medium
<b>Average investment balance <sup>(1)</sup></b>		
– Equity products	<b>677.1</b>	526.0
– Trust schemes	<b>5,297.7</b>	5,730.7
– Asset management products	<b>138.4</b>	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 28.7% from RMB526.0 million in 2019 to RMB677.1 million in 2020; the average balance of investments in trust schemes decreased by 7.6% from RMB5,730.7 million in 2019 to RMB5,297.7 million in 2020; and the average balance of the Company's investments in asset management products decreased by 10.0% from RMB153.8 million in 2019 to RMB138.4 million in 2020.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Long-Term Equity Investments

The Company made strategic long-term investments in a number of financial institutions, which helped the Company establish stronger business relationships with these financial institutions and created synergies for its business operations. The following table sets forth the major equity investments of the Company in financial institutions as at 31 December 2020, including their main businesses, the Company's proportionate equity interests in them, whether the Company held any board seats, the date of the Company's first investment, and the relevant accounting treatment of each investment.

Name	Main business	Equity interest as at 31 December		Board seat	First investment date	Accounting treatment
		2020				
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司) (Note)	Management of securities investment funds	45.00%	Yes		May 2003	Investments accounted for using the equity method
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	Automobile financing	10.00%	Yes		September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	Management of securities investment funds	16.68%	Yes		April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	Insurance products and services	9.85%	Yes		December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	Commercial banking	2.37%	Yes		November 2009	Investments accounted for using the equity method
Minsheng Securities Co., Ltd. (民生證券股份有限公司)	Securities brokerage, securities asset management and proprietary investment	1.16%	No		January 1999	Financial assets at FVPL

Note: On 14 December 2020, the Company entered into an equity transfer agreement with Lucion Group to sell 45% equity interests of First-Trust Fund Management Co., Ltd..

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in thousands)</i>	
<b>Long-term equity investments, accounted for:</b>		
– As associate using the equity method	<b>1,642,703</b>	1,309,906
– Investment categorised as financial assets at FVPL	<b>289,680</b>	178,504
<b>Total</b>	<b>1,932,383</b>	1,488,410

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in thousands)</i>	
<b>Dividend income generated from:</b>		
– As associate using the equity method	<b>60,197</b>	43,355
– Investment categorised as financial assets at FVPL	<b>6,768</b>	–
<b>Total</b>	<b>66,965</b>	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 3.0% and 3.9% for the years ended 31 December 2019 and 31 December 2020, respectively. The increase in average return on long-term equity investments in 2020 as compared to that of 2019 was primarily due to the increase in dividend income from the associates of the Company in 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Proprietary Loans*

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. As at 31 December 2019 and 31 December 2020, the outstanding balance of the Company's proprietary loans were RMB1,295.3 million and RMB994.0 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 Trust Industry 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 31 December 2020.

## FINANCIAL OVERVIEW

### Consolidated Statement of Comprehensive Income Analysis

In 2020, the net profit attributable to shareholders of the Company amounted to RMB627.8 million, which decreased by RMB36.1 million as compared to the corresponding period of last year, representing a decrease of 5.4%.

## *Results of Operations*

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Fee and commission income	<b>1,152,419</b>	1,037,771
Interest income	<b>716,614</b>	529,807
Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value	<b>126,561</b>	299,999
Investment income	<b>146,181</b>	14,231
Net gains on disposal of associates	<b>109,920</b>	3,062
Other operating income	<b>53,935</b>	1,796

# MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Total operating income</b>	<b>2,305,630</b>	1,886,666
Interest expenses	(620,516)	(137,873)
Staff costs (including directors and supervisors' emoluments)	(139,254)	(189,401)
Depreciation and amortisation	(13,588)	(10,406)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(16,575)	(475)
Tax and surcharges	(11,317)	(18,917)
Administrative expenses	(78,998)	(71,883)
Auditor's remuneration	(1,972)	(1,792)
Impairment losses on financial assets	(1,058,799)	(688,059)
Impairment losses on other assets	(514)	(13,730)
<b>Total operating expenses</b>	<b>(1,941,533)</b>	(1,132,536)
<b>Total operating profit</b>	<b>364,097</b>	754,130
Share of profit of investments accounted for using the equity method	368,874	123,705
<b>Operating profit before income tax</b>	<b>732,971</b>	877,835
Income tax expense	(105,153)	(213,929)
<b>Net profit attributable to shareholders of the Company</b>	<b>627,818</b>	663,906

## Total Operating Income

### *Fee and Commission Income*

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Fee and commission income:</b>		
Trustee's remuneration	1,152,151	1,037,565
Others	268	206
<b>Total</b>	<b>1,152,419</b>	1,037,771

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's fee and commission income in 2020 was RMB1,152.4 million, representing an increase of 11.0% as compared to RMB1,037.8 million in 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 (average of the beginning balance and the ending balance of AUM during the Reporting Period) of the Company in 2020.

## *Interest Income*

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

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in thousands)</i>	
<b>Interest income from:</b>		
Cash and bank balance	<b>4,131</b>	4,782
Loans to customers	<b>695,899</b>	502,438
Financial investments – amortised cost	<b>6,226</b>	6,746
Financial assets purchased under resale agreements	<b>6,326</b>	8,912
Contribution to Trust Industry Protection Fund	<b>4,032</b>	6,929
<b>Total</b>	<b>716,614</b>	529,807

The Group's interest income in 2020 was RMB716.6 million, representing an increase of 35.3% as compared to RMB529.8 million in 2019. Such increase was primarily due to an increase in the size of grant of daily average loans in the consolidated structured entities of interest income recorded by the Group in 2020, and the Group's interest income from loans to customers increased by 38.5% from RMB502.4 million in 2019 to RMB695.9 million in 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 RMB300.0 million in 2019 to RMB126.6 million in 2020, primarily due to (i) the decrease in the value of financial assets at FVPL held by the Group; and (ii) the decrease in valuation of associates indirectly held by the Group through consolidated structured entities measured at fair value.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Investment Income*

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Dividends income from:</b>		
Financial assets at FVPL	6,768	275
<b>Net realised gains from disposal of:</b>		
Financial assets at FVPL	139,413	13,956
<b>Total</b>	<b>146,181</b>	<b>14,231</b>

The Group's investment income in 2020 was RMB146.2 million, representing an increase of RMB132.0 million as compared to RMB14.2 million in 2019. Such increase was primarily due to the gains generated by the disposal of listed shares and mutual funds of the Group in 2020.

## *Net Gains on Disposal of Associates*

In 2020, the associates held by the specific consolidated structured entities which were accounted for by the Group using the equity method were disposed of, and the Group realised a net gain of RMB109.9 million, only a small amount of gains was generated in 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Total Operating Expenses

### Interest Expenses

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

The Group's interest expenses in 2020 were RMB620.5 million, representing an increase of 350.1% as compared to RMB137.9 million in 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).

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

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Salaries and bonuses	110,642	155,343
Pension costs (defined contribution plans)	7,068	10,895
Housing funds	6,276	6,462
Labour union fee and staff education expenses	2,997	6,044
Other social security and benefit costs	12,271	10,657
<b>Total</b>	<b>139,254</b>	189,401

The Company's staff costs in 2020 were RMB139.3 million, representing a decrease of 26.5% as compared to RMB189.4 million in 2019, primarily due to the decrease in salaries and bonuses.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Impairment Losses on Financial Assets*

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Loans to customers	1,075,066	675,629
Financial investments -amortised cost	(95)	1,261
Trustee's remuneration receivable	(626)	5,687
Others	(15,546)	5,482
<b>Total</b>	<b>1,058,799</b>	<b>688,059</b>

Impairment losses on financial assets of the Group increased by 53.9% from RMB688.1 million in 2019 to RMB1,058.8 million in 2020, which was primarily due to the provision for asset impairment made by the Group based on the principle of prudence in response to the temporary tight liquidity situation of the customers to whom the consolidated structured entities in the Group granted loans under the superimposed influence of micro economy situation, industry environment, credit environment and multiple rounds of epidemics in 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 198.2% from RMB123.7 million in 2019 to RMB368.9 million in 2020, primarily due to the increase in the net profit of certain investees.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Operating Profit before Income Tax and Operating Margin*

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Profit before income tax	<b>732,971</b>	877,835
Operating margin <sup>(1)</sup>	<b>31.8%</b>	46.5%

*Note:*

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

As a result of the foregoing, the Group's profit before income tax decreased by 16.5% from RMB877.8 million in 2019 to RMB733.0 million in 2020, and the Group's operating profit margin decreased from 46.5% in 2019 to 31.8% in 2020.

## *Income Tax Expense*

The Group's income tax expense decreased by 50.8% from RMB213.9 million in 2019 to RMB105.2 million in 2020, primarily due to the increase in the tax influence of tax-free income in 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Net profit attributable to shareholders of the Company	<b>627,818</b>	663,906
Net profit margin <sup>(1)</sup>	<b>27.2%</b>	35.2%

Note:

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

As a result the foregoing reasons, the net profit attributable to the shareholders of the Company decreased by 5.4% from RMB663.9 million in 2019 to RMB627.8 million in 2020. The Group's net profit margin decreased from 35.2% in 2019 to 27.2% in 2020.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
<b>Trust business:</b>		
Operating income	<b>1,155,078</b>	1,039,816
Segment income	<b>1,155,078</b>	1,039,816
<b>Proprietary business:</b>		
Operating income	<b>1,150,552</b>	846,850
Share of profit of investments accounted for using the equity method	<b>368,874</b>	123,705
Segment income	<b>1,519,426</b>	970,555

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

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Trust business	<b>(215,486)</b>	(268,168)
Proprietary business	<b>(1,726,047)</b>	(864,368)
<b>Total operating expenses</b>	<b>(1,941,533)</b>	(1,132,536)

# MANAGEMENT DISCUSSION AND ANALYSIS

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:

	Year ended 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Trust business	939,592	771,648
Proprietary business	(206,621)	106,187
<b>Total profit before income tax</b>	<b>732,971</b>	<b>877,835</b>

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:

	Year ended 31 December	
	2020	2019
Trust business	81.3%	74.2%
Proprietary business	(13.6%)	10.9%

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trust Business

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

The segment profit before income tax for the Group's trust business increased by 21.8% from RMB771.6 million in 2019 to RMB939.6 million in 2020, primarily due to an increase of 11.1% in the segment income from the trust business from RMB1,039.8 million in 2019 to RMB1,155.1 million in 2020 and a decrease of 19.6% in the segment operating expenses in the trust business from RMB268.2 million in 2019 to RMB215.5 million in 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 RMB1,037.8 million in 2019 to RMB1,152.4 million in 2020.

The decrease in the segment operating expenses in the trust business was mainly due to a decrease in staff cost from RMB182.6 million in 2019 to RMB135.6 million in 2020.

As a result of the foregoing, the segment margin of the trust business increased from 74.2% in 2019 to 81.3% in 2020.

## Proprietary Business

The segment income from the Group's proprietary business mainly consists of the interest income from loans to customers, interest income from financial investment – amortised cost and financial assets purchased under resale agreements, interest income from contribution to Trust Industry Protection Fund, net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income, net gains on disposal of 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 other beneficiaries of consolidated structured entities, tax and surcharges and impairment losses on financial assets.

The segment profit before income tax for the Group's proprietary business decreased from RMB106.2 million in 2019 to RMB206.6 million of loss in 2020, primarily due to an increase of 56.6% in the segment income from the proprietary business from RMB970.6 million in 2019 to RMB1,519.4 million in 2020, partially offset by the increase of 99.7% in the segment operating expenses from the proprietary business from RMB864.4 million in 2019 to RMB1,726.0 million in 2020.

- (1) The increase in the segment income from the proprietary business was mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) net gains on disposal of associates increased from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income was RMB53.9 million (among which RMB51.4 million is government subsidy) in 2020, and only a small amount of such income was generated in 2019; and (v) an increase in share of profit of investments accounted for using the equity method RMB123.7 million in 2019 to RMB368.9 million in 2020. The interest income, investment income, net gains on disposal of 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 RMB300.0 million in 2019 to RMB126.6 million in 2020.



# MANAGEMENT DISCUSSION AND ANALYSIS

- (2) The increase in segment operating expenses from the proprietary business was mainly due to (i) the increase in interest expenses from RMB137.9 million in 2019 to RMB620.5 million in 2020; (ii) an increase in the impairment losses on financial assets from RMB688.1 million in 2019 to RMB1,058.8 million in 2020.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 10.9% in 2019 to -13.6% in 2020.

## 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 Company'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 31 December 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 RMB20,683.8 million, respectively, of which the total assets of the Company amounted to RMB11,200.6 million and RMB10,974.5 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investment – amortised cost, (iv) financial assets at FVPL, (v) cash and bank balances, (vi) trustee's remuneration receivable and (vii) financial assets purchased under resale agreements. As at 31 December 2020, the above-mentioned major assets accounted for 61.6%, 15.7%, 0.2%, 10.8%, 4.7%, 0.8% and 0.5%, respectively, of the total assets of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Loans to Customers

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

	As at 31 December	
	2020	2019
<i>(RMB in thousands)</i>		
Corporate loans-at amortised cost	<b>14,232,249</b>	9,027,180
Including: issued by the Company	<b>993,950</b>	1,571,795
issued by consolidated structured entities	<b>13,238,299</b>	7,455,385
Interest receivable	<b>72,446</b>	53,398
Less: Expected credit losses allowance – loans	<b>(1,555,395)</b>	(1,276,128)
Expected credit losses allowance – interest receivable	<b>(1,726)</b>	(1,479)
<b>Loans to customers, net</b>	<b>12,747,574</b>	7,802,971
Presented as:		
Non-current assets	<b>9,641,926</b>	5,659,408
Current assets	<b>3,105,648</b>	2,143,563
<b>Loans to customers, net</b>	<b>12,747,574</b>	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 Company's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 453.7% from RMB1,563.5 million as at 31 December 2019 to RMB8,657.3 million as at 31 December 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 31 December 2020 were RMB742.5 million and RMB7,282.4 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,083.5 million and RMB1,422.6 million for these impaired loans as at 31 December 2019 and 31 December 2020, respectively, representing 69.3% and 16.4% of the gross amount of those loans, respectively. The impairment allowances provided by the Group 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 60.8% of the Group's gross loans to customers as at 31 December 2019 and 31 December 2020, respectively.

The Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans. As at 31 December 2020, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 7.0% and 7.8% of the gross amount of the Group's loans to customers and the net amount of the Group's loans to customers, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

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:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in thousands)</i>	
Corporate loans – at amortised cost	<b>993,950</b>	1,571,795
Interest receivable	–	13,976
Less: Expected credit losses allowance – Loans	–	(290,113)
Expected credit losses allowance – Interest receivable	–	(387)
<b>Loans to customers, net</b>	<b>993,950</b>	1,295,271
Presented as:		
Non-current assets	–	1,281,682
Current assets	<b>993,950</b>	13,589
<b>Loans to customers, net</b>	<b>993,950</b>	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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Investments in Associates

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

	Equity Interest as at 31 December 2020	As at 31 December 2020	2019
<i>(RMB in thousands)</i>			
<b>Associates of the Company, measured at equity accounting</b>			
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	16.68%	869,824	658,056
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	9.85%	215,101	216,375
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	10.00%	207,775	198,755
Shandong Luxin New and old Kinetic Energy Conversion Venture Capital parent fund (limited partnership) (山東省魯信新舊動能轉換創投母基金合夥企業(有限合夥))	26.00%	148,739	78,501
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	2.37%	110,344	107,888
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	45.00%	52,410	47,469
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)	18.60%	35,626	–
Anhui Luxin Equity Investment Fund Management Co., Ltd. (安徽魯信股權投資基金管理有限公司)	25.00%	2,884	2,862
<b>Gross amount</b>		<b>1,642,703</b>	1,309,906
Less: Impairment allowance		–	–
<b>Subtotal</b>		<b>1,642,703</b>	1,309,906
<b>Associates indirectly held by the Group through consolidated structured entities, measured at equity accounting</b>			
Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司)	1.50%	674,489	620,282
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)		–	50,758
Others		71,859	52,591
<b>Gross amount</b>		<b>746,348</b>	723,631
Less: Impairment allowance		<b>(10,000)</b>	(10,000)
<b>Subtotal</b>		<b>736,348</b>	713,631

# MANAGEMENT DISCUSSION AND ANALYSIS

	Equity Interest as at 31 December 2020	As at 31 December	
		2020	2019
		<i>(RMB in thousands)</i>	
<b>Associates indirectly held by the Group through consolidated structured entities, measured at fair value</b>			
Tengzhou Haide Park Property Co., Ltd. (滕州海德公園地產有限公司)	3.60%	151,210	53,980
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 Co., Ltd. (滄州梁生房地產開發有限公司)	39.00%	111,088	119,087
Nanyang Liangheng Real Estate Co., Ltd. (南陽梁恒房地產開發有限公司)	49.00%	82,320	–
Tianjin Liangxin Property Development Co., Ltd. (天津梁信房地產開發有限公司)	40.00%	89,047	87,546
Huangshi Liangsheng Real Estate Development Co., Ltd. (黃石梁晟房地產開發有限公司)	28.00%	94,179	89,600
Tianjin Liangshun Property Development Co., Ltd. (天津梁順房地產開發有限公司)	40.00%	70,496	72,174
Nanyang Zhongliang Chengtong Real Estate Co., Ltd. (南陽中梁城通置業有限公司)	20.00%	49,315	44,680
Ankang Liangsheng Jiye Property Co., Ltd. (安康梁盛基業置業有限公司)	20.00%	37,840	–
Yunnan Hongshan City Investment Development Co., Ltd. (雲南虹山城市投資發展有限公司)	15.00%	30,000	–
Weifang Hengru Real Estate Co., Ltd. (濰坊恒儒置業有限公司)	15.00%	15,000	–
Shenzhen Qianhai Run Xin Investment Co., Ltd. (深圳前海潤信投資有限公司)	30.00%	13,234	12,654
Henan Liang Ding Property Co., Ltd. (河南梁鼎置業有限公司)		–	153,087
<b>Subtotal</b>		<b>863,729</b>	<b>752,808</b>
<b>Total</b>		<b>3,242,780</b>	<b>2,776,345</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Assets at FVPL

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

	As at 31 December	
	2020	2019
	<i>(RMB in thousands)</i>	
Listed shares	90,395	47,007
Equity investments in unlisted entities	289,680	374,347
Asset management products	107,077	178,455
Mutual funds	618,447	564,448
Bonds	886,168	–
Investments in trust schemes	129,436	264,500
Investments in Trust Industry Protection Fund	115,253	95,668
<b>Total</b>	<b>2,236,456</b>	<b>1,524,425</b>

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 46.7% from RMB1,524.4 million as at 31 December 2019 to RMB2,236.5 million as at 31 December 2020, primarily due to the Group's (i) increase of the investments in bonds; (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; (v) decrease of the investments in trust schemes; and (vi) decrease of the investments in asset management products.

## Cash and Bank Balance

As at 31 December 2019 and 31 December 2020, the Group's cash and bank balance amounted to RMB964.4 million and RMB969.5 million, respectively, of which RMB866.9 million and RMB698.8 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 22.5% from RMB214.1 million as at 31 December 2019 to RMB165.9 million as at 31 December 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 dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 28 February 2021, 17.7% of the trustee's remuneration receivable was recovered.



# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The Group's government bond purchased under reverse repurchase agreements to resell increased by 871.8% from RMB11.0 million as at 31 December 2019 to RMB107.1 million as at 31 December 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 bond purchased under reverse repurchase agreements to resell as at 31 December 2019 and 31 December 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 the Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pay to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by the Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid 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 the Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB540.0 million and RMB289.4 million as at 31 December 2019 and 31 December 2020, respectively, among which RMB349.5 million and RMB179.5 million were classified as non-current assets, and RMB190.5 million and RMB109.9 million were classified as current assets. Instead of collecting such amounts from the counterparty clients before the liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. At the end of the Reporting Period, the Company has not encountered any difficulties in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of the Company's financing trusts.



# MANAGEMENT DISCUSSION AND ANALYSIS

## **Liabilities**

As at 31 December 2019 and 31 December 2020, the Group's total liabilities amounted to RMB4,761.9 million and RMB10,508.7 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the Reporting Period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 31 December 2020, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 90.0%, 1.0%, 1.0% and 8.0% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) increased by 177.8% from RMB3,404.7 million as at 31 December 2019 to RMB9,459.8 million as at 31 December 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *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 the 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 RMB196.0 million as at 31 December 2020.

The Company's deferred trustee's remuneration decreased from RMB47.1 million as at 31 December 2019 to RMB13.9 million as at 31 December 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 the SAT on 30 June 2017 (the "**Notice**"). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 31 December 2020, the outstanding VAT for trusts and the related surcharges amounted to RMB77.1 million.

## *Off-balance Sheet Arrangements*

As at 31 December 2020, the Group did not have any outstanding off balance sheet guarantees or foreign currency forward contracts.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Assets under Management, 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 31 December 2020, the Company had consolidated 58 and 50 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB9,514.2 million and RMB15,220.3 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	As at 31 December	
	2020	2019
<b>Beginning:</b>	<b>58</b>	51
Newly consolidated trust schemes	10	25
Deconsolidated trust schemes	18	18
<b>Ending:</b>	<b>50</b>	58

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in millions)</i>	
Total assets of the Company	<b>10,975</b>	11,201
Total assets of consolidated trust schemes	<b>15,220</b>	9,514
Consolidation adjustment	<b>(5,511)</b>	(6,143)
<b>Total assets of the Group</b>	<b>20,684</b>	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:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in millions)</i>	
Total liabilities of the Company	<b>889</b>	1,439
Total liabilities of consolidated trust schemes	<b>15,220</b>	9,514
Consolidation adjustment	<b>(5,600)</b>	(6,191)
<b>Total liabilities of the Group</b>	<b>10,509</b>	4,762

# MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>As at 31 December</b>	
	<b>2020</b>	2020
	<i>(RMB in millions)</i>	
Total equity of the Company	<b>10,086</b>	9,762
Consolidation adjustment	<b>89</b>	48
<b>Total equity of the Group</b>	<b>10,175</b>	9,810

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

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>(RMB in millions)</i>	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	<b>587</b>	780
Impact of consolidation of trust schemes	<b>41</b>	(116)
<b>Net profit attributable to the Group's shareholders after consolidation of trust schemes</b>	<b>628</b>	664

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Given the Company's limited decision-making authority over administrative management trusts and because the Company has not made any proprietary investments 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 in 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RISK MANAGEMENT

### Overview

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

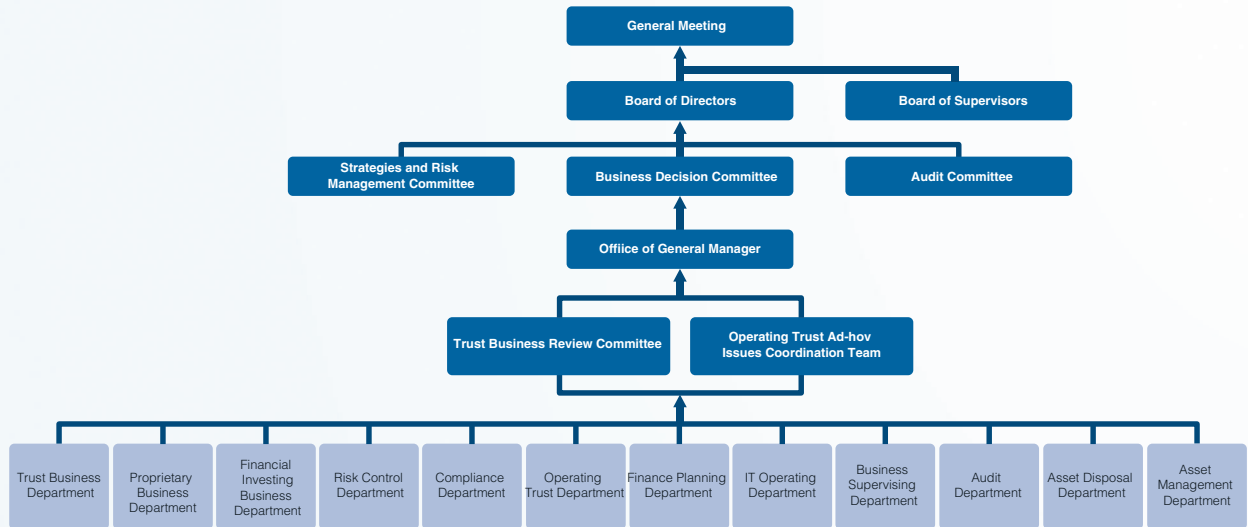
### Risk Management Organisational Structure

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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



Note:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Factors Affecting the Company's Results of Operations

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

### *General Economic and Financial Market Conditions*

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

After Chinese economy has experienced rapid growth over the past 40 years, it has entered a stage of high-quality development characterised by economic structure optimisation, industry transformation and upgrading. The structural transformation of the Chinese economy and fluctuations in macroeconomic policy and financial market present challenges for the Company's business. For example, regulation of the real estate industry in China and control on local governments to incur debts may negatively affect the Company's trust business. Under the background of economic slowdown, structural adjustment, macroeconomic situation created certain pressure and constraint on the capital and asset sides of trust industry. The Company's clients may reduce their investment activities or financing needs during times of economic slowdown, which may reduce the demand for the Company's various types of trust products. Financial risks of individual cases may break out more often during times of economic slowdown, which may increase the default risks of the Company's counterparties. In 2020, the sudden COVID-19 pandemic has a huge impact on China and world economy, and many market players have been exposed to unprecedented pressure. Although China's economy has begun to recover, the pandemic may reduce the market demand for the Company's business. On the other hand, the Company may identify new business opportunities during such economic transformation and take advantages of the changes in financial market conditions and the Company may increase its business in areas that can counteract the impact of downward economic cycle. 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Regulatory Environment*

The Company's results of operations, financial condition and development prospects are affected by regulatory developments in the PRC. CBIRC, the main regulatory authority for the PRC trust industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. In April 2018, the PBOC, the CBIRC, the CSRC and the State Administration of Foreign Exchange jointly issued the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to unify the regulatory standards of asset management business by product types, requiring, among other things, financial institutions including trust companies to carry out "de-channeling" and "reduce nested systems" in conducting the asset management business. In 2020, the CBIRC made clear requirements for the pressure drop of trust companies' channel business and financing business, insisting on the goal of "de-channeling", "nesting elimination", continuing to standardise business development and guiding trust companies to accelerate business model transformation. Such policies may impose certain tightening effects on the operation of trust companies in the short term, while in the long term, they are conducive to trust companies in enhancing the active management capability and revisiting to the fundamentals of trust industry. However, the regulatory authorities may also restrict the development of certain businesses of trust companies from time to time, which may have an adverse effect on the Company's business.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Business Lines and Product Mix*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Competition*

The Company faces competition from other trust companies in China. In the course of internal development in the trust industry with the momentum characterised by differentiation, most of the trust companies are working on expansion and innovation in a proactive and effective manner. The Company competes with these trust companies in terms of client base, knowledge of the relevant industries, active management capability, innovation capability, reputation, creditworthiness, shareholders' background and support. The Company will leverage on its own advantages, shareholders' background, strategic partnership as well as 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 commercial bank wealth management subsidiaries, for the Company's counterparty clients and the intensity of competition from other financing sources will affect the number and quality of the Company's counterparty clients as well as the level of interest the Company can charge on financings to the Company's counterparty clients and thereby affect the Company's operating income and profitability. For the Company's investment trusts, the Company competes with other financial institutions that provide assets and wealth management services. Given the changes of regulation policies on various financial sectors, financial institutions such as commercial banks, and commercial bank wealth management subsidiaries, securities firms, fund management companies, private equity funds and insurance companies have diversified their assets and wealth management services. As such, the Company's ability to grow its investment trust business depends on the Company's ability to effectively compete with these financial institutions through offering a variety of trust products that are tailored to the different needs of the Company's trustor clients.

## *Interest Rate Environment*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Credit Risk Management

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

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

### *Credit Risk Management on Trust Business*

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

### *Credit Risk Management on Proprietary Business*

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

## Market Risk Management

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

## Liquidity Risk Management

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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. As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. For conditions of the liquidity and financial resources of the Group, please refer to the section headed "Management Discussion and Analysis" – "Liquidity and Financial Resources" of this annual report.

## Compliance Risk Management

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

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

## Operational Risk Management

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

## Reputational Risk Management

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

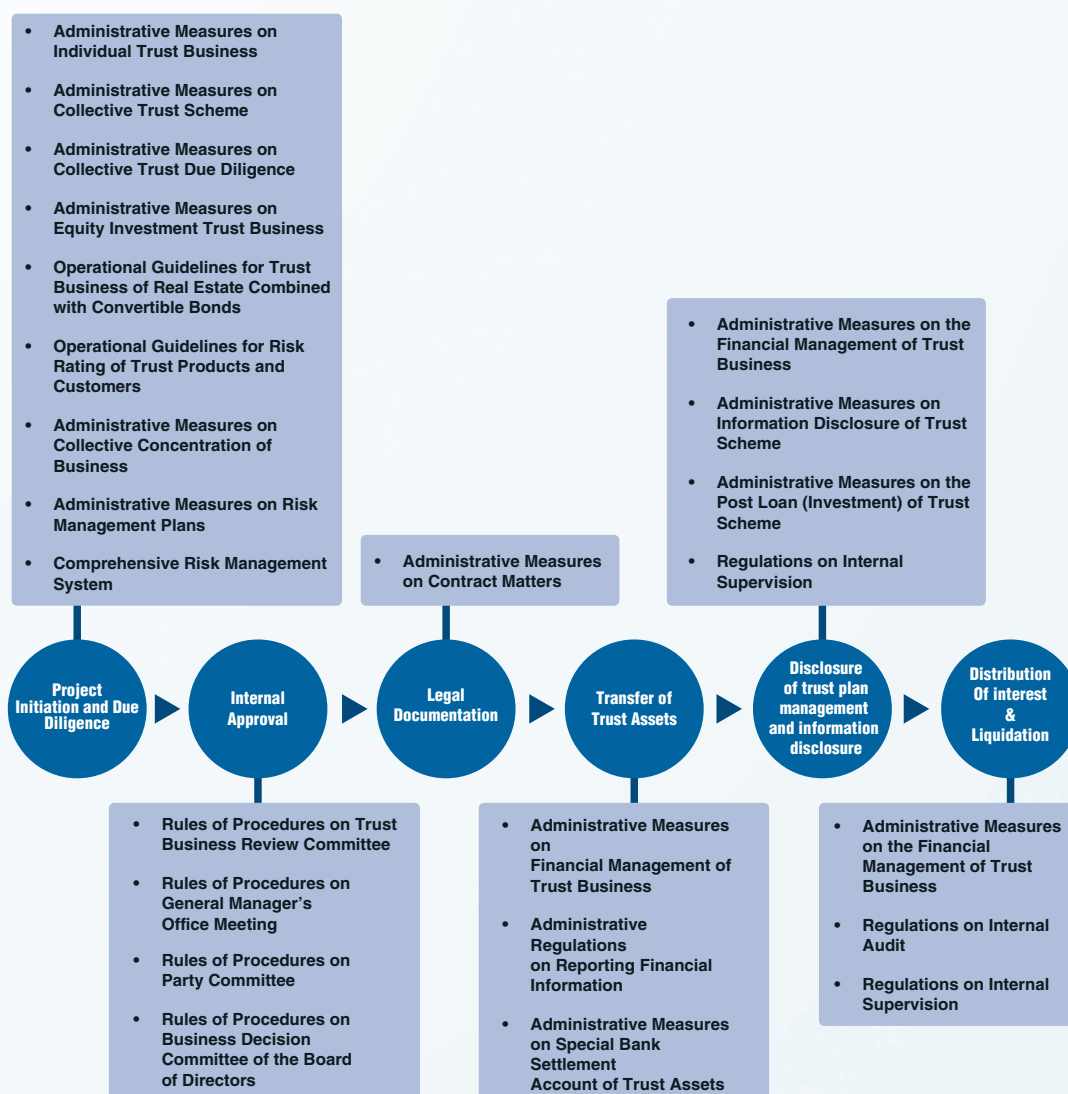
# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Risk Management

The Company enhanced its foresight and adaptability and controlled the policy risks by analysing and researching on the national macroeconomic 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.

## Risk Management Systems and Policies

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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

## Anti-money Laundering Management

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

The Company established an Anti-Money Laundering Leading Work Group for anti-money management, appointed the General Manager of the Company as the chairperson of the group, and the Chief Risk Management Officer who was responsible for legal and compliance matters as the vice chairperson of the group, and the heads of other relevant departments as members of the group. There is 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 work.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## CAPITAL MANAGEMENT

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

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

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

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

As at 31 December 2020, the Company's net capital was approximately RMB8.598 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.685 billion; the ratio of net capital to total risk-based capital was 233.34%, which is not lower than 100%; and the ratio of net capital to net asset was 85.25%, which is not lower than 40%.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million, with current assets of RMB6,263 million and current liabilities of RMB9,067 million. As at 31 December 2020, the Group had cash and bank balances totaling RMB970 million. As at 31 December 2020, the Group's current liabilities included RMB8,042 million in respect of net assets attributable to other beneficiaries of consolidated structured entities.

# MANAGEMENT DISCUSSION AND ANALYSIS

In view of the net current liabilities position, the Directors have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and sources of finance, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the audited consolidated financial statements have been prepared on a going concern basis. For relevant details, please refer to the section headed “Notes to Consolidated Financial Statements” – “2 Principal Accounting Policies-2.1(b) Going concern basis” of this annual report.

## HUMAN RESOURCES MANAGEMENT

Guided by the target of corporate strategies for the human resources work of the Company in 2020, the Company always adheres to enhancing human resources value and continuously improving the scientific and systematic level of human resource management to provide solid organisational assurance and talents support for the high-quality development of the Company.

Formulating human resources development strategy according to corporate strategies, fully strengthening the development of human resources management system, establishing the long-term mechanism for “selecting, using, cultivating and maintaining” talents, fully motivating the entrepreneurial enthusiasm of all employees and officers and creating a good talent development environment.

Continuing to optimise organisational structure, integrate and optimise departments, clarify duties of departments and offices, integrate remote business team and set up wealth outlets, select outstanding talents from both internal and external to accumulate power for the assets and capital of the Company.

Standardising the management of selection and appointment of personnel, promoting the development of staff and keeping to improve the management ability and level of the management. The Company promoted institutional improvement, provided staff with various promotion channels and addressed the practical issue of “employee career development”.

We believe the competence and loyalty of its employees are vital to its sustainable growth. The Company has adopted a market-oriented performance assessment, appraisal and incentive system, under which compensation is linked to employee’s performance. We formulate remuneration plans based on the operating performance, risk management and control of the Company, and the employee compensation is closely related to the assessment and completion of performance indicators, risk control indicators, and social responsibility indicators.

Comprehensive performance assessment systems provide the basis for human resources related decisions such as compensation adjustment, bonus distribution, promotion, talent development, and employee incentives. The Company complies with the relevant regulations of the regulatory institution on compensation management, and effectively implements the relevant regulations such as the compensation extension payment system and the avoidance system.

We provide social insurance (including pension insurance, medical insurance, employment injury insurance, unemployment insurance, and maternity insurance) and housing provident fund for our employees in accordance with the relevant laws and regulations of the PRC. The Company also provides supplementary pension insurance and medical insurance for employees.



# MANAGEMENT DISCUSSION AND ANALYSIS

We always insist on the development of “learning organisation” and has provided staff with a multi-level, year-round training programme, and we exert great efforts in improving the comprehensive quality and work skills of staff. We carry out internal training by means of internal case sharing and engaging external professional mentors. We offer various online courses for employees in response to pandemic factors, and we actively encourage employees to “go out”. We keep improving the development of the Company’s training system by combining compulsory courses with optional courses, focusing on training credits and continuously improving the construction of training system of the Company. We provide efficient, professional and all-around training according to the needs of different posts and levels.

Our employees have participated in labour unions that safeguard the rights and interests of its employees, and coordinate closely with management with respect to human resources matters. The Company’s operations have never been affected by any strike or significant labour dispute. The Company believes our management will continue to maintain good relationships with the labour union and its employees.

As at 31 December 2019 and 31 December 2020, the Company has a total of 229 and 235 employees, respectively. The number and percentage of different employees by departments are as follows:

	31 December 2020		31 December 2019	
	Number of employees	%	Number of employees	%
Management	8	3.41	8	3.49
Trust business employees	91	38.72	93	40.63
Proprietary business employees	11	4.68	12	5.24
Wealth management employees	25	10.64	26	11.35
Risk management and audit employees	27	11.49	27	11.79
Financial and accounting employees	16	6.81	14	6.11
Operation management employees	31	13.19	32	13.97
Other staff <sup>(1)</sup>	26	11.06	17	7.42
<b>Total</b>	<b>235</b>	<b>100</b>	<b>229</b>	<b>100</b>

Note:

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



# MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019 and 31 December 2020, the details of employees by age are as follows:

	31 December 2020		31 December 2019	
	Number of employees	%	Number of employees	%
Aged 25 and below	10	4.25	2	0.87
Aged 25–29	35	14.89	47	20.52
Aged 30–39	138	58.73	126	55.03
Aged 40 and above	52	22.13	54	23.58
<b>Total</b>	<b>235</b>	<b>100</b>	229	100

As at 31 December 2019 and 31 December 2020, the details of employees by education level are as follows:

	31 December 2020		31 December 2019	
	Number of employees	%	Number of employees	%
Doctoral degree and above	6	2.55	6	2.62
Master's degree	177	75.32	161	70.31
Bachelor's degree	43	18.30	51	22.27
Junior college and below	9	3.83	11	4.80
<b>Total</b>	<b>235</b>	<b>100</b>	229	100

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PROSPECT

The pandemic is still the biggest uncertainty affecting the global economic trend in 2021. The sustainability of macro policies in developed economies faces challenges. China's economy returns to normal, the endogenous driving force is gradually strengthening. With the continuous expansion of middle-income groups in China and the rapid accumulation of residents' wealth, the wealth management needs of high-net-worth individuals are increasing day by day, and the development space of trust companies is very broad. At present, the trust industry is in a critical period of transformation and reform. The Company will firmly respond to the call of the regulatory authorities, keep in mind the trustee's position, continuously strengthen the construction of trust culture, accelerate the improvement of active management ability, enhance the trustee's professional value, grasp the major development opportunities in the economic transition period, actively explore new business models and business fields to better serve the real economy and people's needs for a better life, and make a good start for the "14th Five-Year Plan" with high-quality development.

## KEY TASKS FOR 2020

In 2021, the Company will continue to insist on progressing in stability, actively comply with the regulatory orientation and market change, deeply carry out the construction of trust culture, and keep in mind the mission of supporting the high-quality development of the real economy and satisfying the people's desire for a better life. Through the reform of the system and mechanism, we will further stimulate the endogenous development momentum, comprehensively improve the supporting ability of information technology, the management ability of comprehensive risk, the management ability of professional asset and the service ability of comprehensive management, and accelerate the establishment of a new pattern of high-quality development of the Company. The Company plans to focus on the following tasks in 2021.

**Focusing on improving the quality of the main business, accelerating business transformation, and enhancing synergy.** The Company adheres to the development strategy of "two-wheel drive and coordinated improvement" for inherent business and trust business. First, we will accelerate the transformation of trust business, steadily improve professional investment capabilities and asset allocation levels, and actively build a new pattern of high-quality development featuring equal emphasis on financing and investment, as well as non-standard and standard products. Second, we will optimise the organisational structure and integrating internal superior resources to build an investment and research system and risk control system with "large-scale asset allocation" as the core, and comprehensively improve the research and development capabilities of standardised product and asset allocation capabilities. Third, we will accelerate the development of service trust businesses such as family trusts, wealth management, and charitable trusts based on account management, actively return to the roots of trusts, and deepen the transformation of wealth management. Fourth, we will continuously improve the quality and efficiency of inherent business operation, and further enhance the synergy between inherent business and trust business, increase the expansion of venture capital projects, and continue to optimise the layout of financial equity investment. Fifth, we will deeply implement the mission of financial state-owned enterprises and fully serve the economic and social development of the region, deepen the potential of business resources in the region, effectively expand the supply of financial, and continue to increase the priority and market share of the Company in the development of the region.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Further improving the layout of outlets and team formation, and striving to build a more dynamic marketing system.**

We will continue to increase marketing outlets, expand marketing teams at appropriate time, strengthen the construction of institutional financial management team and the development of institutional business, improve differentiated sales assessment and incentive systems as soon as possible, and actively build a marketing system with customer-oriented, market-oriented and more dynamic. Through the two-wheel drive of “online + offline”, we will vigorously develop independent marketing, build a one-stop customer self-service platform online, create offline physical outlets with excellent customer experience, and actively guide customers to invest in net value products, so as to promote the serialisation of products and the branding of wealth management in an orderly manner.

## **Strengthening technological empowerment and enhancing the supporting and leading capabilities of information technology.**

We will adhere to business orientation and demand orientation, with the guidance of smart trust, strengthen the construction of information technology, accelerate the construction of an intelligent risk control system, build an efficient and reliable risk management data platform, and comprehensively improve the capabilities of risk prediction, risk management and risk disposition of the Company. After completing the upgrade of SITC APP 2.0, we will launch new functions such as man-machine dual recording and online roadshows to improve user experience, promote the optimisation and upgrade of the business management system, accelerate the development of the standard product business management system, rely on financial technology to improve service efficiency, reduce operating costs, effectively enhance the competitiveness of products and services, and provide strong support and guidance for the transformation and development of the Company.

## **Promoting the three systems reform steadily to stimulate the endogenous motivation of the enterprise.**

We will continue to promote the optimisation of organisational structure and human resources, improve the human resource management system, and actively explore the reform of the professional manager system; follow the idea of the “headquarters specialisation, remote integration” to optimise and adjust the organisational structure, effectively stimulate the endogenous motivation of enterprise development; to meet the needs of regulatory orientation and company transformation, improve the salary assessment system and effectively enhance the competitiveness of the industry; create a scientific and professional talent recruitment, training, and assessment mechanism, and fully implement the requirements of the three systems reform.

## **Continuing to improve the risk management and control system and establish decent trustee culture.**

In accordance with the principle of “measurable, controllable, and bearable” risks, we will continue to improve a multi-dimensional and multi-level comprehensive risk management system that matches the characteristics of the business, continuously enhance the entrusted management capabilities from entire process including product design, product marketing, due diligence, information disclosure, risk disclosure, strictly control project access, do better in the management of project post-investment/post-loan, and strengthen project management in the short term, so as to achieve early risk detection, early warning and early disposition, do better in the management and control of various business quotas and concentration, work harder on liquidity management, fully implement the responsibility of risk project disposition, and promote the early resolution of risk projects. In accordance with relevant regulations of Guidelines for Cultural Construction of Trustees of Trust Companies, the Company will continue to strengthen the construction of trust culture and enhance the professional value of trustees.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## CHANGES IN SHARES

Category of shares	31 December 2019		Increase or decrease during the Reporting Period	31 December 2020	
	Number of shares	Percentage (%)		Number of shares	Percentage (%)
Domestic Shares	3,494,115,000	75	–	<b>3,494,115,000</b>	<b>75</b>
H Shares	1,164,735,000	25	–	<b>1,164,735,000</b>	<b>25</b>
<b>Total</b>	<b>4,658,850,000</b>	<b>100</b>	<b>–</b>	<b>4,658,850,000</b>	<b>100</b>

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

As at 31 December 2020, according to the register of members of the Company, the Company had 62 holders of H Shares (provided by H Share Registrar) and six holders of Domestic Shares in total.

As at 31 December 2020, the shareholding of top ten Shareholders of the Company is set out as follows (shareholding of H Shares are calculated based on the number of shares stated in the register of members of the Company established in the H Share Registrar):

Number	Name of Shareholder(s)	Increase or decrease during the Reporting Period (+/-)	Number of shareholding as at the end of the Reporting Period	Shareholding ratio as at the end of the Reporting Period (%)	Number of shares held subject to trading moratorium at the end of the Reporting Period <sup>(1)</sup>	Nature of Shareholder(s)	Type of shares
1	Lucion Group	+46,800,000 <sup>(3)</sup>	2,242,202,580	48.13	-	Domestic state-owned legal person	Domestic Shares
2	HKSCC Nominees Limited <sup>(2)</sup>	+3,600	911,699,250	19.57	-	Overseas legal person	H Shares
3	CNPC Assets Management Co., Ltd.	-	873,528,750	18.75	-	Domestic state-owned legal person	Domestic Shares
4	Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司)	-	252,765,000	5.43	-	Domestic state-owned legal person	H Shares
5	Shandong High-Tech Venture Capital Co., Ltd. (山東省高新技術創業投資有限公司)	-	225,000,000	4.83	-	Domestic state-owned legal person	Domestic Shares
6	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	-	80,073,468	1.72	-	Domestic state-owned legal person	Domestic Shares
7	Weifang Investment Group Co., Ltd. (濰坊市投資集團有限公司)	-	60,055,101	1.29	-	Domestic state-owned legal person	Domestic Shares
8	Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司)	-46,800,000 <sup>(3)</sup>	13,255,101	0.28	-	Domestic state-owned legal person	Domestic Shares
9	Individual Shareholder	-	27,000	0.00	-	Overseas individual	H Shares
10	Individual Shareholder	-	18,000	0.00	-	Overseas individual	H Shares

Notes:

- (1) "Shares subject to trading moratorium" means shares subject to transfer limitations as required by laws and regulations or based on undertaking by Shareholders
- (2) HKSCC Nominees Limited, as an agent, held the total number of H Shares (excluding the H Shares held by Jinan Finance Holding Group Co., Ltd. stated in the above table).
- (3) On 11 February 2020, 46,800,000 domestic shares of the Company held by Jinan Energy Investment Co., Ltd. were auctioned by Lucion Group after a judicial auction. These change of interest were approved by Shandong Office of CBIRC on 27 February 2020.

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

# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 31 December 2020, the Company has been notified by the following persons in relation to their interests or short positions in the shares and underlying shares of the Company which are discloseable pursuant to Divisions 2 and 3 of Part XV of the SFO, and such interests or short positions recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of Shareholder	Class of shares	Nature of interests <sup>(1)</sup>	Number of underlying shares held <sup>(2)</sup>	Approximate percentage of the class of underlying shares <sup>(2)</sup>	Approximate percentage of total share capital <sup>(2)</sup>
Shandong High-Tech Venture Capital Co., Ltd. <sup>(3)</sup>	Domestic Shares	Beneficial owner	125,000,000	6.44%	4.83%
Lucion Venture Capital Group Co., Ltd. <sup>(3)</sup>	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%
Shandong Lucion Investment Holdings Group Co.,Ltd. <sup>(3),(5)</sup>	Domestic Shares	Beneficial owner	2,242,202,580	64.17%	48.13%
	Domestic Shares	Interest in a controlled corporation	225,000,000	6.44%	4.83%
Shandong Provincial Department of Finance <sup>(4)</sup>	Domestic Shares	Interest in a controlled corporation	2,467,202,580	70.61%	52.96%
CNPC Assets Management Co., Ltd. <sup>(6)</sup>	Domestic Shares	Beneficial owner	485,293,750	25.00%	18.75%
CNPC Capital Company Limited <sup>(6)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability <sup>(6)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
China National Petroleum Corporation <sup>(6)</sup>	Domestic Shares	Interest in a controlled corporation	485,293,750	25.00%	18.75%
State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government <sup>(7)</sup>	H Shares	Interest in a controlled corporation	252,765,000	21.70%	5.43%
Jinan Finance Holding Group Co., Ltd. <sup>(7)</sup>	H Shares	Beneficial owner	252,765,000	21.70%	5.43%
Qingdao Global Wealth Center Development and Construction Co., Ltd. <sup>(8)</sup>	H Shares	Beneficial owner	232,920,000	19.99%	4.99%
Qingdao Laoshan District Finance Bureau <sup>(8)</sup>	H Shares	Interest in a controlled corporation	232,900,000	19.99%	4.99%
China Create Capital Limited	H Shares	Beneficial owner	64,737,000	10.00%	2.50%
Chang Xin Asset Management Co., Ltd. <sup>(9)</sup>	H Shares	Trustee	113,263,200	9.72%	2.43%
Shandong Development & Investment Holding Group Co., Ltd.	H Shares	Beneficial owner	51,272,000	7.92%	1.98%
HWABAO TRUST CO., Ltd.	H Shares	Trustee	35,974,000	5.59%	1.39%



# CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## Notes:

- (1) All of the interests refer to long positions.
- (2) According to the authorisation of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, on 8 January 2020, the Company completed the issue of new shares to Shareholders by way of capitalisation of capital reserve on the basis of 8 new shares for every 10 existing Shares then held by Shareholders whose names were on the register of members of the Company on the Record Date (i.e. 19 December 2018). A total of 2,070,600,000 new shares were issued under the capitalisation issue, including 1,552,940,000 new domestic shares and 517,660,000 new H Shares (the "**Capitalisation Issue**"). The total Shares in issue of the Company as at 30 June 2020 were 4,658,850,000 Shares, comprising 3,494,115,000 Domestic Shares and 1,164,735,000 H Shares. The number and percentage of shares disclosed herein is equal to the number and percentage of shares reported in the form of disclosure of interests, pursuant to, the change of number of Shares arising from Capitalisation Issue did not constitute reporting obligation pursuant to the SFO and apart from the Shandong Provincial Finance Bureau, Shandong Lucion Investment Holding Group Co., Ltd., Qingdao Global Wealth Center Development and Construction Co., Ltd., Qingdao Laoshan District Finance Bureau, Chang Xin Asset Management Co., Ltd., the updated number of shares were not reflected in the form of disclosure of interests.
- (3) Shandong High-Tech Venture Capital Co., Ltd. ("**Shandong High-Tech**") is a direct wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. ("**Lucion Venture Capital**"). Lucion Venture Capital is a non-wholly owned subsidiary owned as to 69.57% by Lucion Group and therefore is deemed to be interested in all of the shares of the Company held by Shandong High-Tech, and Lucion Group is deemed to be interested in all of the shares of the Company held indirectly by Lucion Venture Capital. Shandong High-Tech intends to transfer all of its 4.83% equity interest in the Company to Lucion Group by way of non-public agreement. As at the date of this report, the proposed equity transfer has not been completed. For details of the proposed equity transfer, please refer to the announcement of the Company dated 3 September 2020.
- (4) Lucion Group is owned as to 97.39% by Shandong Provincial Finance Bureau and as to 2.61% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會) ("**Shandong SSF**"). Shandong Provincial Finance Bureau is therefore deemed to be interested in all of the shares of the Company directly and indirectly held by Lucion Group.
- (5) 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 Lucion Group. The change of equity interest has been approved by Shandong Office of CBIRC on 27 February 2020.
- (6) CNPC Assets Management Co., Ltd. is a direct wholly-owned subsidiary of CNPC Capital Company Limited ("**CNPC Capital**") and CNPC Capital is wholly-owned by CNPC Capital Joint Stock Company with Limited Liability ("**CNPC**"). CNPC, which is an A share listed company, is held as to 77.35% by China National Petroleum Corporation. Each of CNPC Capital, CNPC and China National Petroleum Corporation are therefore deemed to be interested in all of the shares of the Company held by CNPC Assets Management.
- (7) Jinan Finance Holding Group Co., Ltd. ("**Jinan Finance Holding**") is wholly owned by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government ("**Jinan SASAC**") and Jinan SASAC is therefore deemed to be interested in all of the shares of the Company held by Jinan Finance Holding. To the knowledge of the Company, the number of shares reflected the interests of Jinan Finance Holding and Jinan SASAC as at 31 December 2020. Since the changes in their interests did not constitute reporting obligation pursuant to the SFO, the updated numbers of shares were not reflected in their forms for disclosure of interest.
- (8) Qingdao Global Wealth Center Development and Construction Co., Ltd. is wholly owned by Qingdao Laoshan District Finance Bureau and Qingdao Laoshan District Finance Bureau is therefore deemed to be interested in all of the shares of the Company held by Qingdao Global Wealth Center Development and Construction Co., Ltd.
- (9) Chang Xin Asset Management Co., Ltd. holds the equity of the Company's shares as a trustee of the trust for the Chang Xin Fund-Dongfang No. 1 Single Asset Management Plan.

## Details of Substantial Shareholders Disclosure Required by CBIRC

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

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

Name	Age	Gender	Date of joining/rejoining our Company	Position	Tenure	Roles and responsibilities	Name of Shareholders nominated
Wan Zhong (萬眾)	47	Male	From July 1996 to June 2012 and rejoined in March 2016	Chairperson of the Board and Executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Overall management of the Company's business strategies, corporate governance and operations	Lucion Group
Xiao Hua (肖華)	55	Male	June 2017	Vice chairperson of the Board and Non-executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Providing strategic advice and making recommendations on the operations and management of the Company, and assisting the chairperson in the Board affairs	CNPC Assets Management
Yue Zengguang (岳增光)	47	Male	From September 2008 to March 2016 and rejoin in May 2018 (resigned on 3 February 2021)	Executive Director	From 28 August 2018 to the time when the Shandong Office of CBIRC approves the qualification of the new executive Director	Daily management and operations of the Company	N/A
Jin Tongshui (金同水)	56	Male	From July 1998 to June 1995, from June 2000 to December 2011 and rejoined in August 2012	Non-executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Providing strategic advice and making recommendations on the operations and management of the Company	Lucion Group
Wang Bailing (王百靈)	42	Female	March 2020	Non-executive Director	From 25 March 2020 to the expiry of the term office of the current session of the Board	Providing strategic advice and making recommendations on the operations and management of the Company	Jinan Finance Holding
Yen Huai-chiang (顏懷江)	48	Male	May 2015	Independent non-executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Providing independent advice on the operations and management of the Company	N/A
Ding Huiping (丁慧平)	64	Male	May 2015	Independent non-executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Providing independent advice on the operations and management of the Company	N/A
Meng Rujing (孟茹靜)	43	Female	June 2016	Independent non-executive Director	From 10 July 2018 to the expiry of the term of office of the current session of the Board	Providing independent advice on the operations and management of the Company	N/A

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Biography of Executive Directors



### **Wan Zhong (萬眾) Chairperson, Executive Director**

Mr. Wan Zhong (萬眾), the general secretary to the Party Committee, chairperson and executive Director of the Company. Mr. Wan has over 24 years of experience in the trust and investment industries. He joined the Company in July 1996 and successively served positions in the Company, including the manager of departments, the vice general manager and the general manager of the Company from March 2016 to July 2018. From June 2012 to March 2013, he served as the vice general manager in Shandong Lucion Industrial Co., Ltd. (山東魯信實業集團有限公司) and Shandong Lucion Hengji Investment Co., Ltd.. Mr. Wan also served as the general manager of Shandong Lucion Industrial Co., Ltd. (山東魯信實業集團有限公司) from March 2013 to March 2014, and served as chairperson and director of the same company from September 2013 to March 2016. He served as a director of Lucion Venture Capital Group Co., Ltd. (Shanghai Stock Exchange listed company, (stock code: 600783) from May 2016 to January 2017. Mr. Wan has been serving as the chairperson of First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司) since July 2017. Mr. Wan served as the assistant to the general manager of Lucion Group from December 2017 to March 2020. Since April 2020, Mr. Wan has served as the deputy general manager of Lucion Group. Mr. Wan was accredited as a professional level of senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東省經濟專業職務高級評審委員會). He graduated from Shandong Economics Academy (山東經濟學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in the PRC with a bachelor's degree in economics in international trade and obtained his master's degree in management from Tianjin Finance Academy (天津財經學院) in the PRC.



### **Yue Zengguang (岳增光) Executive Director**

Mr. Yue Zengguang (岳增光), the vice secretary to the Party Committee, the executive Director of the Company. Mr. Yue has over 27 years of experience in accounting, financial and trust industries. He served as the general manager of the Company from September 2018 to March 2021. From September 2008 to March 2016, he successively served as the general manager of Planning and Finance Department, the assistant to the general manager, the general manager of Risk Control Department and the Chief Risk Management Officer of the Company. Before joining the Company, he successively worked in Jinan Economic Development Corporation (濟南經濟發展總公司) and Shandong Zhengyuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所). From January 2004 to August 2008, Mr. Yue successively served in Shandong Luxin Industry Group Company (山東魯信實業集團公司) and Lucion Group, primarily handling accounting matters of these companies. He has served as the director (department head) of the office of disciplinary committee (supervision and audit department) of Lucion Group since March 2016 to November 2018. He has served as minister of the Organisation Department (Human Resources Department) of the Party Committee of Lucion Group since March 2021. Mr. Yue was accredited as a professional level of senior accountant by the High Review Commission of Professional Title in Accounting in Shandong Province (山東省會計專業資格高級評審委員會). He possesses the qualification of PRC certified accountant. Mr. Yue graduated from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)), majoring in accounting, and obtained a master's degree, majoring in business administration, in Tianjin University (天津大學).

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Biography of Non-executive Directors



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

Mr. Xiao Hua (肖華), the Company's Vice-chairperson of the Board and a non-executive Director of the Company. Mr. Xiao has served as a vice secretary to the Party Committee and a director of China Petroleum Finance Co., Ltd. (中油財務有限責任公司) since November 2020. Mr. Xiao has served as executive director, secretary of the party committee, and the chairperson of the labour union of CNPC Assets Management Co., Ltd. (中油資產管理有限公司), one of the major Shareholders of the Company, the chairperson, executive director and the secretary of the party committee and the chairperson of the labour union of Kunlun Trust from July 2016 to November 2020. Mr. Xiao has approximately 31 years of experience in accounting and management in several subsidiaries of China National Petroleum Corporation. Mr. Xiao had worked in Liaoyang Petrochemical Fibre Company (遼陽石化纖維公司), a state-owned subsidiary of China National Petroleum Corporation, for around 14 years, and served various positions. Mr. Xiao worked in Eastern China Chemical Sales Branch (華東化工銷售分公司) of China National Petroleum Corporation for around 15 years and served various positions, including the deputy general manager, general manager, the secretary to the Party Committee, and the chairperson of the labour union. Mr. Xiao was accredited as a senior economist (professor level) by China National Petroleum Corporation. Mr. Xiao obtained a bachelor's degree in accounting from Shenyang University of Technology (瀋陽工業大學) in the PRC and a master's degree in business administration from Fudan University (復旦大學) in the PRC.



### **Jin Tongshui (金同水) Non-executive Director**

Mr. Jin Tongshui (金同水), a non-executive Director of the Company. Since December 2014, he has been the secretary to the Party Committee and chairperson of the board of directors of Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司). Mr. Jin has over 32 years of experience in the financial industry. From July 1988 to June 1995 and from June 2000 to December 2011, he successively served as the project manager as well as the manager of the planning & finance department and the manager of the fund finance department and the risk management department of the Company. From July 1995 to May 2000, he was the finance manager of China Shandong Investment Limited (魯信投資有限公司), a company incorporated in Hong Kong. From January 2012 to December 2014, he served several positions in Lucion Group, including the department chief of its department of property rights management and the department chief of its investment and development department. He served as the chairperson of the board of supervisors of Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司) from 2003 to 2014. He served as the director of Minsheng Securities Co., Ltd. (民生證券股份有限公司), a company principally engaged in securities brokerage and securities investment consulting services, from December 2014 to July 2016. Since July 2019, Mr. Jin has served as a director of Jinan Rural Commercial Bank Co., Ltd. (濟南農村商業銀行股份有限公司). Since September 2020, he has been a director of Hengfeng Bank Co., Ltd.. He was certified as an accountant by the Ministry of Finance. Mr. Jin graduated from the Department of Finance of Shandong Economics Academy in the PRC, and obtained a bachelor's degree in accounting jointly issued by Beijing Technology and Business University (中國北京工商大學) and China Central Radio and TV Virtual University (中央廣播電視大學) (now known as the Open University of China (國家開放大學)) in the PRC.



# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



## **Wang Bailing (王百靈) Non-executive Director**

Ms. Wang Bailing (王百靈), a non-executive Director of the Company. Ms. Wang currently serves as vice head of Financial Management Department of Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司), chairperson of the board of directors of Jianghai Huixin Futures Co., Ltd. (江海匯鑫期貨有限公司), director and general manager of Quancheng International Finance Holding Co., Ltd. (全程國際金融控股有限公司) and director and general manager of Jinan Cultural Industry Investment Co., Ltd. (濟南文化產業投資有限公司), mainly responsible for investment banking, futures assets management and international business. Ms. Wang has held positions in Jinan Finance Holding Group Co., Ltd. (濟南金控有限公司) since September 2017 and served as vice head of Financial Management Department from January 2018 to November 2018 and the director and general manager of Jinan Cultural Industry Investment Co., Ltd. (濟南文化產業投資有限公司). She served as director and general manager of Jinan Financial Holding Mortgage Co., Limited (濟南金控創投有限公司) from April 2018 to July 2019. Since November 2018, she has served as the chairperson and general manager of Jinan Finance Holdings Co., Ltd. (濟南金控創投有限公司), chairperson of the Quancheng Equity Fund (Shandong) Co., Ltd. (全程股權基金(山東)有限公司), director of Jinan Finance International Financial Leasing Co., Ltd. (濟南金控國際融資租賃有限公司), and director of Lucion Technology Co., Ltd. (魯信科技股份有限公司). From August 2002 to August 2017, Ms. Wang successively served as an auctioneer and assistant to the general manager of Shandong Saide Auction Co., Ltd. (山東賽得拍賣有限公司), mainly responsible for due diligence of non-performing assets and auctioneering; an editorial journalist of the “Qi lu Yicai Financial News” (《齊魯第一財經》); general manager of the Legal Department of National Agricultural Lease Co., Ltd. (國農租賃有限公司); general manager of Shandong Lesheng Asset Management Co., Ltd. (山東樂晟資產管理有限公司); and as secretary to the office of the board of directors of Shandong Huizhong New Finance Development Co., Ltd. (山東惠眾新金融發展股份有限公司). Ms. Wang Bailing obtained a master’s degree in law from Yantai University.

## Biography of Independent Non-executive Directors



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

Mr. Yen Huai-chiang (顏懷江), an independent non-executive Director of the Company. Mr. Yen has nearly 20 years of experience in the financial investment and asset management industries. He was accredited as a wealth management advisor (CFP® practitioner) by Financial Planning Association of Taiwan (FPAT) in 2005. He served as a member and officer of FPAT committee; he was accredited as an International Certified Financial Planner (CFP® practitioner) by the Financial Planning Standards Board in 2009. He was a special lecturer of the Certified Private Banker programme and the Certified Financial Planner TM Certification Education Program. He served as an associate director of UBS AG and of UBS Securities Co. Limited, where he was primarily responsible for wealth management affairs. Currently, he is the founder of Panhe Family Office (磐合家族辦公室), an institute principally engaged in family wealth management. He obtained a degree of Master of Science in finance from Golden Gate University in the United States and a doctoral degree in finance in Jinan University (暨南大學) in the PRC.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



## **Ding Huiping (丁慧平) Independent Non-executive Director**

Mr. Ding Huiping (丁慧平), an independent non-executive Director of the Company, a professor and doctoral advisor in accounting and head of research centre of competitiveness of enterprises in the PRC of Beijing Jiaotong University. Mr. Ding has more than 17 years of experience working as an independent non-executive director and a member/chairperson of the audit committee of listed companies in the PRC and Hong Kong. Mr. Ding currently serves as an independent non-executive director of Metro Land Corporation Ltd. (Shanghai Stock Exchange listed company (stock code: 600683), and China Haisum Engineering Co., Ltd. (Shenzhen Stock Exchange listed company (stock code: 002116)). He served as an independent director of China Merchants Securities Co., Ltd. (Shanghai Stock Exchange listed company (stock code: 600999)), independent non-executive director of Huadian Power International Corporation Limited (Hong Kong Stock Exchange listed company (stock code: 1071) and Shanghai Stock Exchange listed company (stock code: 600027). He has also been serving as an external supervisor of China Merchants Bank Co., Ltd. (Hong Kong Stock Exchange listed company (stock code: 3968) and Shanghai Stock Exchange listed company (stock code: 600036)) since June 2016. Mr. Ding obtained his bachelor's degree in engineering from Northeastern University (中國東北大學) in February 1982. He studied in Sweden in 1987, and obtained his associate doctoral degree in industrial engineering in 1991 and a doctoral degree in enterprise economics from Linköping University in Sweden, and conducted post-doctoral research in 1992. After returning to China in 1994, he joined the school of economic management in Northern Jiaotong University (currently known as Beijing Jiaotong University) and has worked until now. His research direction is decision-making on investment and financing of corporate finance, corporate economics and innovation management, corporate value management and supply-chain management



## **Meng Rujing (孟茹靜) Independent Non-executive Director**

Ms. Meng Rujing (孟茹靜), an independent non-executive Director of the Company. Ms. Meng has over 17 years of research and teaching experience in the financial industry and her research areas mainly focuses on including capital markets and investments, real options, corporate finance and risk management. She is an associate professor (teaching) in the Faculty of Business and Economics and a director of the Master of Finance Programme and the Master of Finance (Financial Technology) Programme in The University of Hong Kong. Ms. Meng has received a number of teaching awards, including the International MBA Teaching Award jointly granted by The University of Hong Kong and Fudan University in 2014, Teaching Excellence Award granted by the University of Hong Kong in 2017 as well as the Teaching Awards and the Outstanding Teacher Awards granted by the Faculty of Business and Economics of The University of Hong Kong in 2006, 2012, 2017 and 2020, respectively. Ms. Meng majored in finance and obtained her bachelor's degree in management from Guanghua School of Management of Peking University in the PRC and obtained her degree of Ph.D. in finance from Fuqua School of Business in Duke University in the United States.



# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Supervisors

Name	Age	Gender	Date of joining/ rejoining our Company	Position	Date of being selected at this session	Roles and responsibilities	Name of Shareholders nominated
Guo Shougui (郭守貴)	56	Male	July 2018	Chairperson of the Board of Supervisors	10 July 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	Shandong High- Tech Venture Capital Co., Ltd.
Hou Zhenkai (侯振凱)	39	Male	May 2016	Supervisor	10 July 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	Lucion Group
Chen Yong (陳勇)	47	Male	September 2014	Supervisor	10 July 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	CNPC Assets Management
Wu Chen (吳晨)	46	Male	May 2015	Supervisor	10 July 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	Shandong Gold Group Co., Ltd.
Wang Zhimei (王志梅)	41	Female	July 2018	Supervisor	10 July 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	Weifang Investment Group Co., Ltd.
Tian Zhiguo (田志 國)	48	Male	May 2005	Supervisor	25 May 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	N/A
Zuo Hui (左輝)	50	Male	December 1996	Supervisor	25 May 2018 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	N/A
Zhang Wenbin (張文彬)	35	Male	September 2019	Supervisor	25 October 2019 to the expiry of the term of office of the current session of the Board of Supervisors	Supervising the performance of duties by the Directors and senior management	N/A

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Biography of Supervisors



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

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



### **Hou Zhenkai (侯振凱) Supervisor**

Mr. Hou Zhenkai (侯振凱), a Supervisor of the Company. He has over 12 years of experience in the legal and compliance area. Before joining the Company, he was a lawyer in the Qingdao office of King & Wood Mallesons. He has been serving in the risk and compliance department of Lucion Group since January 2013 and has been serving as the deputy department chief since March 2016, where he was primarily responsible for the legal affairs of the company. He has also been serving as the supervisor of Shandong Zhonglu Oceanic Fishery Company Limited (山東省中魯遠洋漁業股份有限公司), (Shenzhen Stock Exchange listed company, stock code: 200992), from May 2016 to January 2019. Mr. Hou has served as a director of Luxin Venture Capital Group Co., Ltd. (Shanghai Stock Exchange listed company, (stock code: 600783)) since March 2018. At present, he also serves as supervisor of Shandong Investment Company Limited (山東省投資有限公司), Shandong Gaoxin Investment Company Limited (山東高信投資有限公司) and Shandong Lucion Cultural Industrial Venture Capital Co., Ltd. (山東魯信文化產業創業投資有限公司), and director of Shandong Lucion Energy Investment and Management Company Limited (山東魯信能源投資管理股份有限公司). Mr. Hou was qualified to trade in securities by Securities Association of China and to trade in funds by Asset Management Association of China. Mr. Hou graduated from Jilin University in the PRC with a bachelor's degree in law and obtained his master's degree in civil and commercial law from Shandong University in the PRC.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



**Chen Yong (陳勇) Supervisor**

Mr. Chen Yong (陳勇), a Supervisor of the Company. He has over 21 years of experience in the financial industry. Prior to joining our Company, Mr. Chen served in different departments in China National Petroleum Xinjiang Sales Company (中國石油新疆銷售公司), including the general office and the finance and audit department of the company. He then served as the deputy division chief of the finance division and the division chief of the corporate management division of China National Petroleum Xinjiang Sales Company. He has been serving as the general manager of the equity investment department of Kunlun Trust since September 2010 and the division chief of CNPC Assets Management Co., Ltd. since February 2011, in which he is primarily responsible for the day-to-day management of the equity investment affairs of the companies. Mr. Chen was accredited as a senior accountant by China National Petroleum Corporation. He graduated from Xinjiang University (中國新疆大學) in the PRC with a bachelor's degree in computer application and obtained his master's degree in business administration from Xinjiang University of Finance and Economics (中國新疆財經大學) in the PRC.



**Wu Chen (吳晨) Supervisor**

Mr. Wu Chen (吳晨), a Supervisor of the Company. He has over 20 years of experience in the financial industry. Mr. Wu served in the PBOC Jinan Branch, including as its deputy chief clerk. He also served as the section chief, the deputy division chief and the supervisory research analyst in the Shandong Office of CBRC, consecutively. He served as the general manager of Shandong Gold Group Finance Co., Ltd. (planned) (山東黃金集團財務有限公司(籌)) in December 2012, and has been serving as the general manager and the director of Shandong Gold Group Finance Co., Ltd. since July 2013. Mr. Wu was accredited as a senior economist by the Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳). He is a project investment evaluation expert of the Council of Social Security Fund of Shandong Province (山東省社會保障基金理事會). Mr. Wu graduated from Shandong University in the PRC with a bachelor's degree in international economics. He also obtained his master's degree in political science and economics from Shandong University in the PRC.



**Wang Zhimei (王志梅) Supervisor**

Ms. Wang Zhimei (王志梅), a Supervisor of the Company. She has served as the head of risk management department of Weifang Guowei Huijin Investment Co., Ltd. Since September 2016. She has over 15 years of experience in financial and investment industry. From September 2005 to January 2009, she served as a staff of Weifang Wanfeng International Trading Co., Ltd. From January 2009 to September 2016, she served as a staff of business department and risk management department of Weifang Credit Financing Guarantee Co., Ltd. Ms. Wang graduated from Shandong University of Technology with a bachelor's degree in international trade. She also obtained a master's degree in international economics and trade from Xiamen University.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



## **Tian Zhiguo (田志國) Supervisor**

Mr. Tian Zhiguo (田志國), an employee representative Supervisor of the Company. He has over 15 years of experience in the financial and trust industries. He joined our Company in July 2005 and served successively as the project manager and vice general manager of the fifth division of trust and the general manager of the fifth division of trust since October 2014. Prior to joining the Company, Mr. Tian worked in the Electronic Economic Trading Center of Shandong Province (山東省電子經濟貿易中心). He graduated from Shandong University in the PRC with a master's degree in law.



## **Zuo Hui (左輝) Supervisor**

Mr. Zuo Hui (左輝), an employee representative Supervisor of the Company. He is currently the deputy manager of the legal and compliance department of the Company. He has over 23 years of experience in the legal and compliance area of the financial industry. Since he joined the Company in December 1996, Mr. Zuo worked for the legal department, the fund management department and the risk control department of the Company. From March 2015 to May 2018, he served as the deputy manager of the compliance and legal department. Before joining the Company, he was an in-house counsel in the Shandong Film and Television Legal Department (山東省影視律師事務所). Mr. Zuo graduated from Beijing Union University (北京聯合大學) in the PRC with a bachelor's degree in law. He obtained his master's degree in law from China University of Political Science and Law (中國政法大學) in the PRC.



## **Zhang Wenbin (張文彬) Supervisor**

Mr. Zhang Wenbin (張文彬), an employee representative Supervisor of the Company. Mr. Zhang is currently the office manager of the Party Committee and the discipline inspection committee of the Company. He has over 12 years of experience in human resources management. He joined the Company in September 2019. From July 2009 to April 2013, he worked at ZTE Corporation (中興通訊股份有限公司) (Hong Kong Stock Exchange listed company (stock code: 00763) and Shenzhen Stock Exchange listed company (stock code: 000063)), and worked at human resources department. From April 2013 to May 2016, he worked at the office of general manager of Qingdao Hisense International Marketing Co., Ltd. (青島海信國際營銷股份有限公司). From May 2016 to September 2019, he served as a senior business manager of party committee organisation department (human resources department) at Shandong Lucion Investment Holdings Group Co. Ltd. (山東省魯信投資控股集團有限公司). Mr. Zhang obtained a bachelor's degree in business administration from Shandong University, and a master's degree in corporate management from Peking University.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Senior management

Name	Age	Gender	Date of joining/ rejoining our Company	Position	Date of appointment	Roles and responsibilities
Fang Hao (方灝)	46	Male	March 2021	General Manager	31 March 2021	Day-to-day overall management and operations of the Company
Zhou Jianqu (周建堯)	48	Female	January 1999	Vice General Manager	26 October 2011	Assisting the General Manager with the day-to-day management of the business operations of the Company
He Chuangye (賀創業)	45	Male	October 2015	Vice General Manager, Secretary to the Board and Joint Company Secretary	7 April 2016	Securities affairs and assisting the General Manager with the day-to-day management of the business operations of the Company
Wang Ping (王平)	53	Male	September 2019	Chief Financial Officer	16 September 2019	Finance and accounting and related matters of proprietary business of the Company
Fu Jiguang (付吉廣)	52	Male	May 2001	Chief Risk Management Officer	27 July 2016	Compliance, risk management and audit of the operations and investment of the Company
Niu Xucheng (牛序成)	45	Male	July 2003	Vice General Manager	13 April 2018	Assisting the general manager to manage the daily business operations of the Company



# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Biography of senior management



### **Fang Hao (方灝) General Manager**

Mr. Fang Hao (方灝), the General Manager of the Company, has over 20 years of experience in trust industry. From July 1997 to June 2007, Mr. Fang held various positions at Jiangxi International Trust Co., Ltd. (江西國際信託股份有限公司), including the senior manager of the investment banking department and the head of the risk management department. From December 2009 to July 2010, Mr. Fang served as the general manager of the risk management department at National Trust Co., Ltd. (國民信託有限公司). From July 2010 to September 2010, he as a representative of The Bank of East Asia, Limited, being a shareholder of Founder BEA Trust Co., Ltd. (方正東亞信託有限責任公司) (currently known as Guotong Trust Co., Ltd. (國通信託有限責任公司)), participated in its re-registration and other preparatory work. In September 2010, he joined Founder BEA Trust Co., Ltd. (方正東亞信託有限責任公司) and served as the chief risk officer from May 2011 to March 2018. From March 2018 to November 2020, Mr. Fang served as an executive vice president of Changan International Trust Co., Ltd. (長安國際信託股份有限公司), during which he had also served as the company's acting president. Mr. Fang graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in international finance in July 1997, and obtained a master's degree in economics from Jiangxi University of Finance and Economics (江西財經大學) in June 2006. In July 2010, he obtained a PhD degree in economics from Renmin University of China (中國人民大學).



### **Zhou Jianqu (周建堯) Vice General Manager**

Ms. Zhou Jianqu (周建堯), the Vice General Manager of the Company. Ms. Zhou has over 22 years of experience in the financial and trust industries. She joined our Company in January 1999. She served in the securities department and then in the trust investment banking department of our Company, consecutively. She then served as the project manager, the operation manager, the deputy manager and the manager in the fund trust department of our Company. She served as the manager in the fifth division of trust in our Company. Prior to joining our Company, she served in Jinan Kuaixin Industrial Group Company Limited (濟南快信實業集團公司). She also served in Shandong Enterprise Property Right Exchange (山東企業產權交易所). Ms. Zhou was accredited as a senior economist by the Ministry of Human Resources of the PRC. She was granted qualifications to trade in securities by Securities Association of China, to trade in funds by Asset Management Association of China and to trade in futures by China Futures Association. Ms. Zhou has been a member of the Finance and Economics Committee of the 18th People's Congress of Lixia District, Jinan (濟南市歷下區第十八屆人民代表大會財政經濟委員會) since February 2017. Ms. Zhou studied in the department of mechanical engineering and obtained her bachelor's degree in engineering from Beijing Light Industry Academy (北京輕工業學院) in the PRC. She obtained her master's degree in business administration from Shandong Economics Academy in the PRC.



# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



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

Mr. He Chuangye (賀創業), a member of the Party Committee, Vice General Manager of our Company, the secretary to the Board and one of our joint company secretaries. He was appointed as the vice general manager and the secretary to the Board on 7 April 2016 and 27 July 2016, respectively. Mr. He has over 21 years of experience in the financial industry. Prior to joining our Company, Mr. He served several positions in the financial supervisory institutions in China, including a clerk in the PBOC Jinan Branch. He then successively served in the Shandong Office of CBRC as the clerk, the deputy chief clerk, the chief clerk, the section chief, the deputy director of the general office and the deputy division chief in its Non-banking Financial Institution Regulatory Division (非銀行金融機構監管處). He also served a temporary post as the deputy chief secretary of Yantai City Government. Mr. He was granted the certificate of intermediate economist by the Ministry of Personnel of the PRC. Mr. He obtained a bachelor's degree in economics from Zhengzhou University in the PRC and a master's degree in finance from the University of Hong Kong in Hong Kong.



## **Wang Ping (王平) Chief Financial Officer**

Mr. Wang Ping (王平), the Chief Financial Officer of the Company. Mr. Wang has over 31 years of experience in accounting. He has served as our Chief Financial Officer since September 2019. From July 1992 to April 2001, he served in several subsidiaries of Jinan Oil Refinery, primary responsible for accounting matter. From April 2001 to January 2003, he served as senior business manager of audit department of Lucion Group. From January 2003 to November 2013, he consecutively served as manager of financial department of Shandong Luxin Industry Group Company, Shandong Luxin Investment Group Co., Ltd. (山東魯信投資集團股份有限公司), Shandong Luxin Real Estate Investment Development Co., Ltd. (山東魯信房地產投資開發有限公司). From November 2013 to November 2016, he served as chief financial officer of Luxin Venture Capital Group Co., Ltd. (Shanghai Stock Exchange listed company, (stock code: 600783)). From November 2016 to September 2019, he served as chief financial officer of Luxin Capital Management Co., Ltd. (魯信資本管理有限公司). He has been a director of Fullgoal Fund Management Co., Ltd. since October 2020. Mr. Wang was accredited as a senior accountant by the Senior Review Committee of Accounting Professional Qualifications of Shandong Province (山東省會計專業資格高級評審委員會), and qualified as a PRC certified public accountant, certified tax accountant, certified asset appraiser, internal auditor, and securities professional. Mr. Wang graduated from Tianjin University of Finance and Economics with a Master's Degree in business administration.

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



## **Fu Jiguang (付吉廣) Chief Risk Management Officer**

Mr. Fu Jiguang (付吉廣), a member of the Party Committee and the Chief Risk Management Officer of our Company. He has over 28 years of experience in the trust and financial industries. He joined our Company in May 2001 and served as the operation manager of the investment banking operations department, the deputy manager of the investment banking department and the manager of the audit and legal department of our Company. Mr. Fu served as the chief financial officer of Shandong Zhonglu Oceanic Fisheries Co., Ltd. (Shenzhen Stock Exchange listed company, stock code: 200992). He served as the manager of the fourth division of trust. Before joining our Company, he served in the investment department of Jining Trust Investment Company Limited (濟寧市信託投資公司). He also served as the director and the vice general manager of Jining Liuzhuang Port Transportation Company Limited (濟寧市留莊港運輸總公司), where he was primarily responsible for the day-to-day management of the company. He was the director of Jinan Luban Bairong Properties Company Limited (濟南魯班百融置業有限公司) and has been serving as the director of Qihe County Jiqi Yellow River Bridge Management Company Limited (齊河縣濟齊黃河大橋經營管理有限公司) since October 2015. Mr. Fu was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東經濟專業職務高級評審委員會). He has been the chairperson of the board of supervisors of Fullgoal Fund Management Co., Ltd. since February 2017 and a supervisor of the Education Foundation of Shandong University of Finance and Economics since April 2018. He obtained his bachelor's degree in industrial economics and his master's degree in corporate management from Shandong Economics Academy in the PRC, now known as Shandong University of Finance and Economics.



## **Niu Xucheng (牛序成) Vice General Manager**

Mr. Niu Xucheng (牛序成), deputy general manager of the Company. He has served as the deputy general manager of the Company since April 2018. Mr. Niu has over 18 years of experience in the trust industry. He joined the Company in July 2003, and successively worked for the fund investment department, the loan management department of China Development Bank, fund trust department and the first trust business department. From April 2012 to May 2018, he successively served as the deputy general manager of the trust business and the general manager of the trust business. Before joining the Company, he served as a member of the Qingdao Jiaozhou Municipal Committee of the Communist Youth League of China. Mr. Niu was appraised as an intermediate economist by the Ministry of Personnel of the People's Republic of China. He received the qualification of securities professional and fund trading professional issued by the Securities Association of China and the Asset Management Association of China, and received the qualification of futures trading professional issued by the China Futures Association. He obtained a master's degree in finance from the Shandong Finance College (currently known as Shandong University of Finance and Economics) in 2003.

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

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period and up to the date of this annual report, the changes in the Directors, Supervisors and senior management of the Company are as follows:

### CHANGES OF DIRECTORS

Ms. Wang Bailing has been elected as a non-executive Director of the Company at the 2019 first extraordinary general meeting held on 28 November 2019. The qualification of Ms. Wang as a non-executive Director was approved by the Shandong Office of CBIRC on 25 March 2020.

Mr. Yue Zengguang tendered his resignation as an executive director of the Company due to work adjustment. The Board of Directors approved the resignation of Mr. Yue on 3 February 2021, and his resignation will take effect only after the qualification of the new executive director of the Company have been approved by the Shandong Office of CBIRC. Prior to this, Mr. Yue continued to perform his duties as an executive Director.

Upon the recommendation of the Board of Directors, Mr. Fang Hao was elected as the new executive Director of the Company at the first extraordinary general meeting of shareholders held on 30 March 2021. The qualification of Mr. Fang as an executive Director is still subject to the approval of his qualification by the Shandong Office of CBIRC.

### CHANGES OF SUPERVISORS

Due to work adjustment, Mr. Guan Wei, ceased to be a shareholder representative Supervisor of the Company since 29 December 2020.

### CHANGES OF SENIOR MANAGEMENT

As approved by the Board on 3 February 2021, Mr. Yue Zengguang, the general manager of the Company, ceased to be the general manager of the Company due to work adjustment. On the same date, the Board of Directors has appointed Mr. Fang Hao as the general manager of the Company. Before the qualification of Mr. Fang Hao became effective, Mr. Yue Zengguang continued to assume the duties of general manager. The qualification of Mr. Fang Hao was approved by the Shandong Office of CBIRC on 31 March 2021.

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

# DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## ANNUAL REMUNERATION

Please refer to Note 13 “Emoluments of Directors, Supervisors, Senior Management and the Five Highest Paid Individuals” to the Consolidated Financial Statements in this annual report for details of the remuneration of Directors, Supervisors and senior management of the Company.

For the year ended 31 December 2020, we did not pay any remuneration to our non-executive Directors who were nominated by our Shareholders to take up the Directors’ position in the Company because these non-executive Directors had been remunerated by our Shareholders directly for their service as our Director, being part of their job responsibilities of their working with our Shareholders.

Save as disclosed in this annual report, no other amounts have been paid or are payable by the Company to our Directors and Supervisors for the year ended 31 December 2020.

No remuneration was paid by the Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join the Company or as remuneration or a compensation for loss of office upon joining the Company in respect of the year ended 31 December 2020. Furthermore, none of our Directors nor Supervisors waived or agreed to waive any remuneration during the same period.

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

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

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

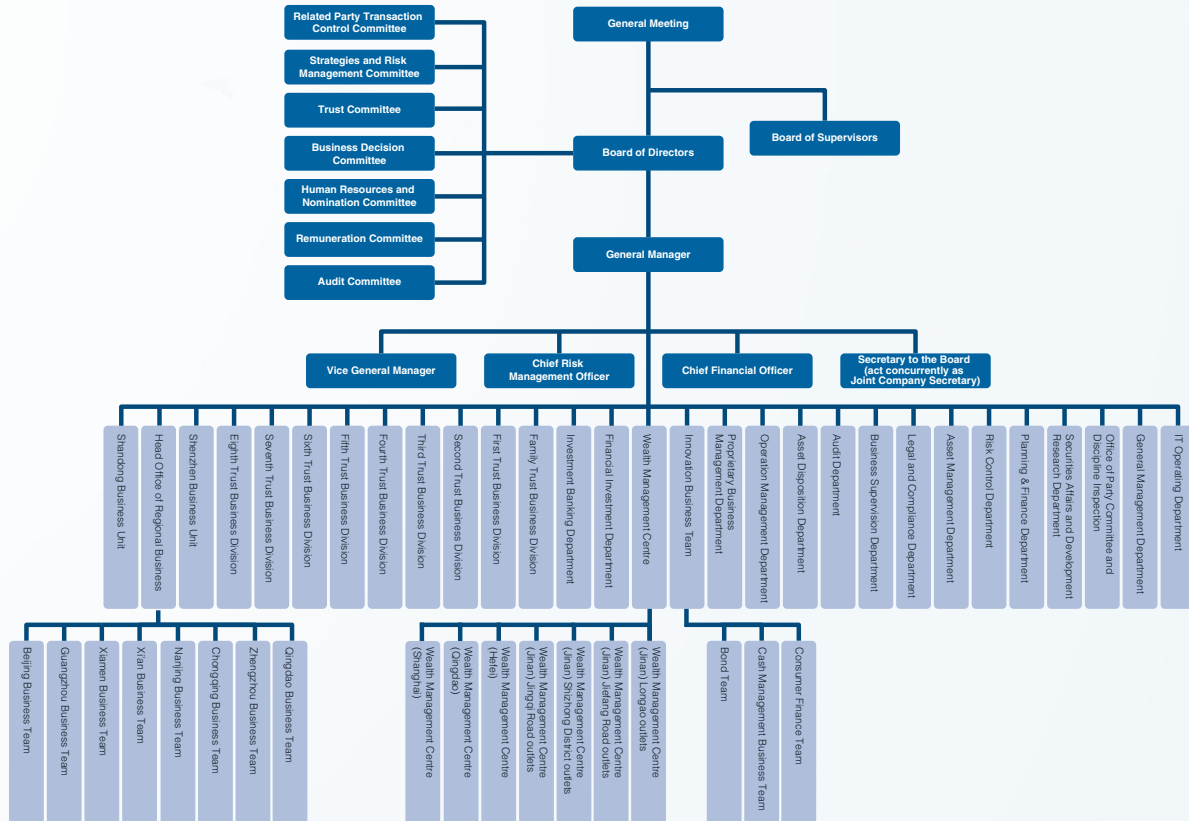
The Company has set up a relatively comprehensive corporate governance structure as required by the Listing Rules. The compositions of the Board and the special committees under the Board are in compliance with the requirements of the Listing Rules. The Company clearly classifies the responsibilities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

## CORPORATE GOVERNANCE CODE

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

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE STRUCTURE



## RESPONSIBILITIES OF THE BOARD

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

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



# CORPORATE GOVERNANCE REPORT

## COMPOSITION OF THE BOARD

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

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

Name	Position
Wan Zhong	Chairperson and Executive Director
Xiao Hua	Vice chairperson and Non-executive Director
Yue Zengguang	Executive Director (resigned on 3 February 2021)
Jin Tongshui	Non-executive Director
Wang Bailing	Non-executive Director
Yen Huai-chiang	Independent non-executive Director
Ding Huiping	Independent non-executive Director
Meng Rujing	Independent non-executive Director

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

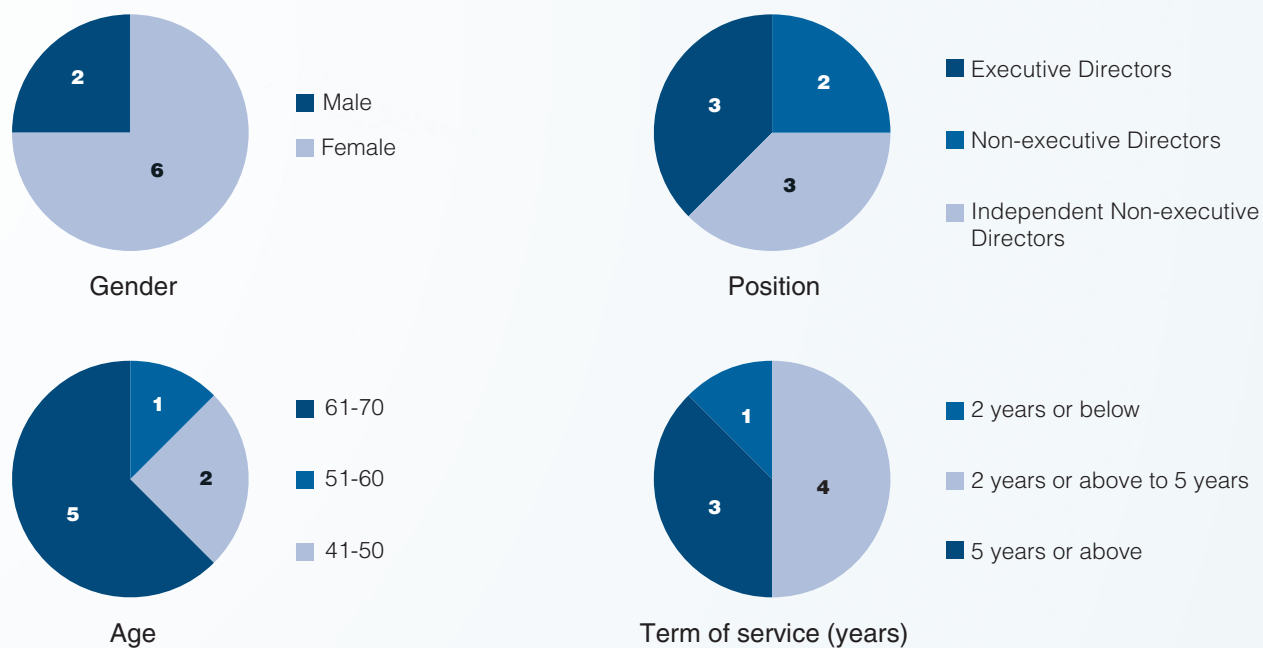
The Company has received an annual confirmation from each of the independent non-executive Directors relating to their independence. Each of the independent non-executive Directors has confirmed his/her independence during the year ended 31 December 2020 pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

## DIVERSITY OF THE BOARD

The Board remains committed to enhancing its operating efficiency and maintaining the highest standards of corporate governance on a continuing basis and recognises the vital importance of the diversity of the Board with regard to the maintenance of competitive advantage and sustainable development. The Board strives to ensure the appropriate balance of skills, experience and diversity of perspectives that are essential for the implementation of its business strategies of the Board and the effective operation of the Board. In designing the composition of the Board, the Company has taken into account the diversity of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service and time to be devoted as a Director of the Company, etc. The Company will consider its own business model and special needs from time to time as well. The ultimate decision will be made based on the contribution and merit that the selected candidates will bring to the Board. At present, the Board comprises professionals in the fields of finance, economics, wealth management and accounting. Meanwhile, it has achieved diversification in multiple dimensions such as gender, age and service period, which has effectively improved the decision-making ability and strategic management level of the Board.

# CORPORATE GOVERNANCE REPORT

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



## FUNCTIONS AND POWERS OF THE BOARD OF DIRECTORS

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

- (1) to convene general meetings and to report its work to the general meetings;
- (2) to implement the resolutions of the general meetings;
- (3) to decide on the operation plans and investment plans of the Company;
- (4) to formulate the annual financial budgets and final accounts of the Company;
- (5) to formulate the profit distribution plans and loss recovery plans of the Company;
- (6) to formulate proposals for the increase or reduction of the registered capital of the Company;

# CORPORATE GOVERNANCE REPORT

- (7) to prepare proposals for the material acquisition, repurchase of the shares of the Company or merger, division, dissolution or change of corporate form of the Company;
- (8) to formulate proposals for repurchase of shares of the Company;
- (9) to resolve repurchase of shares of the Company under certain circumstances;
- (10) to formulate proposals for the issuance of corporate bonds, any types of shares, warrants or other marketable securities and listing;
- (11) to decide on the establishment of internal management departments of the Company and the establishment or revocation of the branches and other sub-branches of the Company;
- (12) to elect the chairperson and vice chairperson of the Board of the Company;
- (13) to appoint or dismiss the general manager of the Company and secretary to the Board pursuant to the nominations by the chairperson of the Board of the Company; to appoint or dismiss vice general manager, chief financial officer and other senior management members of the Company pursuant to the nominations by the general manager and to decide on their remunerations, incentives and punishments;
- (14) to formulate the basic management system of the Company and terms of reference of all special committees under the Board;
- (15) to prepare proposals for amendments to the Articles of Association, Procedural Rules for the Shareholders' General Meeting and Procedural Rules for the Board;
- (16) to formulate the share incentive schemes of the Company;
- (17) to manage the matters in relation to the information disclosure of the Company;
- (18) to decide on the establishment of special committees and to elect their members;
- (19) to decide on the risk management system of the Company which covers risk assessments, financial control, internal audit and legal risk control and monitor its implementation;
- (20) to propose the appointment or replacement of the accounting firm that provides the Company with auditing services for annual financial statements to the general meeting, and decide on its audit fees;
- (21) to listen to the regular or irregular work reports from the general manager of the Company or the senior management members of the Company appointed by the general manager, and to approve the work reports of the general manager;
- (22) to consider and approve the major financial accounting policies and changes to accounting estimates;

# CORPORATE GOVERNANCE REPORT

- (23) to decide on the staffing arrangement, proposals on remuneration and performance appraisal of the senior management members;
- (24) to consider the material equity investments, bond investments, acquisition of assets, disposal of assets, write off of assets and external guarantee and other transaction matters in the proprietary business except for those which shall be approved by the general meetings in accordance with the Articles of Association;
- (25) to consider the material related party transactions which shall be approved by the Board pursuant to laws, regulations and listing rules of the place where the securities of the Company are listed; and
- (26) to exercise other functions and powers conferred by laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, the general meetings and the Articles of Association.

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

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

A summary of training received by Directors for the year ended 31 December 2020 according to the records provided by the Directors is as follows:

<b>Name of Director</b>	<b>Nature of Programme of Continuous Professional Development</b>
<b>Executive Directors</b>	
Wan Zhong	CD
Yue Zengguang	CD
<b>Non-executive Directors</b>	
Xiao Hua	CD
Jin Tongshui	CD
Wang Bailing	CD
<b>Independent Non-executive Directors</b>	
Yen Huai-chiang	ABCD
Ding Huiping	CD
Meng Rujing	ABCD

# CORPORATE GOVERNANCE REPORT

## Notes:

- A: attending seminars and/or meetings and/or forums and/or briefings
- B: giving speeches at seminars and/or meetings and/or forums
- C: attending trainings provided by lawyers or trainings related to the Company's business
- D: reading materials on different topics, including corporate governance, responsibilities of directors, Listing Rules and other relevant laws

## Chairperson and General Manager

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

During the Reporting period, the chairperson of the Board and the general manager of the Company are currently served by Mr. Wan Zhong and Mr. Yue Zengguang, respectively. Upon the departure of Mr. Yue Zengguang, the position of general manager of the Company shall be assumed by Mr. Fang Hao. The Company clearly delineates these two different positions of chairperson and general manager with functions. The chairperson of the Board is responsible for providing strategic recommendations and guidance on the Company's development and the general manager is responsible for daily operations of the Company.

## Appointment and Re-election of Directors

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

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

- (1) a candidate for the position of Director shall be nominated by way of putting forward a proposal by the Board or the Shareholders individually or jointly holding 5% or more of the total number of shares carrying voting rights issued by the Company, and the basic information, biographies and other written materials shall be attached thereto;
- (2) for candidates nominated by the Board, the Human Resources and Nomination Committee of the Board shall conduct preliminary review on the qualifications for such positions and conditions of the candidates for the position of Director, and propose competent candidates to the Board for consideration; upon consideration and approval by the Board, the candidates for the position of Director shall be proposed to the general meeting by way of written proposal;
- (3) the candidates for the position of Director shall make written commitments before the convening of general meeting that they agree to accept the nomination, undertake that the information publicly disclosed is true and complete, and warrant to fulfill the duties of Directors with due diligence once elected; The written notice of intention to nominate a person for the position of Director and the written notice by such person of his/her willingness to accept the nomination and relevant written materials with information of the nominee, shall be sent to the Company at least ten days prior to the convening of the general meeting;

# CORPORATE GOVERNANCE REPORT

- (4) the Company shall, before convening the general meeting, disclose detailed information of the candidates for the position of Director to Shareholders according to laws, regulations and the Articles of Association in order to ensure that Shareholders could have sufficient knowledge of the candidates when casting their votes;
- (5) the Company shall give at least seven days for relevant nominators and candidates for the post of Director for submission of the notice and materials set forth as above (such period shall be calculated from the day following the issue date of the notice of general meeting); and
- (6) the general meeting shall vote on the proposals on each candidate one by one.

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

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

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

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

## Board Meetings

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

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

- (1) joint request of more than one-third of the Directors;
- (2) request of the Board of Supervisors;
- (3) request of more than one half of the independent Directors;
- (4) when the chairperson of the Board deems necessary;



# CORPORATE GOVERNANCE REPORT

- (5) request in writing by Shareholders who hold 10% or more of the shares with voting rights of the Company;
- (6) request of the General Manager; and
- (7) other circumstances as stipulated in the Articles of Association.

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

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

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

During the Reporting Period, the Board held 10 Board meetings and convened one general meeting, one class meeting for holders of Domestic Shares and one class meeting for holders of H Shares. Attendance of the Directors attending Board meetings and general meetings is set out in the following table:

Director	Number of Board meetings attended/ number of attendance in Board meetings required	Number of general meetings attended/ number of attendance in general meetings required
<b>Executive Directors</b>		
Wan Zhong	10/10	3/3
Yue Zengguang	10/10	3/3
<b>Non-executive Directors</b>		
Xiao Hua	7/10	3/3
Jin Tongshui	10/10	3/3
Wang Bailing	8/8	3/3
<b>Independent non-executive Directors</b>		
Yen Huai-chiang	10/10	3/3
Ding Huiping	10/10	3/3
Meng Rujing	10/10	3/3

*Note:* Attendance in meetings includes on-site attendance and attendance by way of telephone and video conference.

# CORPORATE GOVERNANCE REPORT

## Model Code for Conducting Securities Transactions

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

During the Reporting Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard as set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

## Delegation by the Board

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

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

## Corporate Governance Function

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

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

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

### Audit Committee

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

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

- (1) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any issues of their resignation or dismissal;
- (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditors the nature and scope of the audit and the reporting obligations before the audit commences;
- (3) to formulate and implement policy on the provision of non-audit services by the external auditors. For this purpose, "external auditor" includes any institution that is under common control, ownership or management with the auditor or any institution that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the domestic or international business of such auditor. The audit committee shall report to the Board and advise on any matters where action or improvement is needed;
- (4) to monitor the integrity, accuracy and fairness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant opinions on financial reporting as set out therein. In reviewing the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental issues;
  - (iii) significant adjustments resulting from audit;
  - (iv) the assumption of going concern of the Company and any qualified opinions;
  - (v) whether compliance with accounting standards; and
  - (vi) whether compliance with the Listing Rules and other legal requirements in relation to financial reporting.

# CORPORATE GOVERNANCE REPORT

- (5) regarding paragraph (4) above:
  - (i) members of the Audit Committee shall liaise with the Board and the senior management members of the Company. The Audit Committee shall meet at least twice a year with the Company's external auditors; and
  - (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.
- (6) to review the Company's financial control, and unless expressly addressed by a separate risk control and audit committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;
- (7) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish and maintain effective systems. Such discussion shall consider the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- (8) to examine major investigation findings on risk management and internal control matters and the management's response to these findings on its own initiative or as authorised by the Board;
- (9) to ensure coordination between the internal and external auditing bodies and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to examine and monitor the effectiveness of the internal audit function;
- (10) to review the Group's financial and accounting policies and practices;
- (11) to review the external auditors' letters to the management on audit results, any material queries raised by the auditors to the management about accounting records, financial accounts or control system and the management's response;
- (12) to ensure that the Board will provide a timely response to the issues raised in the external auditors' letter to the management on audit results;
- (13) to report to the Board on the matters included under the section headed "Audit Committee" in Appendix 14 to the Listing Rules;

# CORPORATE GOVERNANCE REPORT

- (14) the Audit Committee shall handle the following issues:
- (i) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and appropriate follow-up action taken by the Company;
  - (ii) the Audit Committee shall establish a whistleblowing policy and system for employees and other persons who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- (15) to act as the key representative body for overseeing the relationship between the Company and the external auditors; and
- (16) any other matters as authorised by the Board.

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

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

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Ding Huiping ( <i>Chairperson</i> )	3/3
Mr. Jin Tongshui	3/3
Ms. Meng Rujing	3/3

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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

## Human Resources and Nomination Committee

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

# CORPORATE GOVERNANCE REPORT

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

- (1) to carry out regular review at least once each year in respect of the structure, size and composition (including the aspects of skills, knowledge and experience) of the Board, and to make recommendations with regard to any proposed changes made to the Board in line with the Company's strategies;
- (2) to identify individuals with suitable qualifications for senior management position other than directorship, general manager or the secretary to the Board, and to select and nominate such individuals for senior management roles other than directorship, general manager or the secretary to the Board or to advise the Board in respect thereof;
- (3) to assess the independence of independent Directors;
- (4) to make recommendations to the Board on matters in relation to the appointment or reappointment of Directors and succession planning for Directors (in particular, the chairperson of the Board and the General Manager); and
- (5) any other matters as authorised by the Board.

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

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

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

<b>Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Wan Zhong ( <i>Chairperson</i> )	1/1
Mr. Ding Huiping	1/1
Ms. Meng Rujing	1/1

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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

## Remuneration Committee

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



# CORPORATE GOVERNANCE REPORT

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

- (1) to make recommendations to the Board on the remuneration policy and structure for all Directors and senior management members and on the establishment of a formal and transparent procedure for formulating the remuneration policy;
- (2) to assess the performance of duties of the Directors and senior management members of the Company, and to appraise and assess their performance;
- (3) to supervise the implementation of the Company's remuneration system;
- (4) to review and approve the remuneration proposals for senior management with reference to the corporate guidelines and objectives formulated by the Board;
- (5) to make recommendations to the Board on the specific remuneration packages of certain executive Directors and senior management members, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- (6) to make recommendations to the Board on the remuneration of the non-executive Directors;
- (7) to consider salaries paid by comparable companies, time commitment and duties and employment conditions elsewhere in the Group;
- (8) to review and approve compensation payable to executive Directors and senior management members for loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair, reasonable and not excessive;
- (9) to review and approve arrangement of compensation payable to Directors for termination of or removal from office due to misconduct to ensure that it is consistent with contractual terms and is otherwise reasonable and appropriate;
- (10) to ensure that no Director or any of his/her associates (as defined under the Listing Rules) is involved in determining his/her own remuneration;
- (11) to consult with the chairperson of the Board and/or General Manager about the remuneration proposals for other executive Directors; and
- (12) any other matters as authorised by the Board.

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

# CORPORATE GOVERNANCE REPORT

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

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Ms. Meng Rujing ( <i>Chairperson</i> )	2/2
Mr. Jin Tongshui	2/2
Mr. Yen Huai-chiang	2/2

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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

## Business Decision Committee

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

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

- (1) to examine and approve collective fund trust business submitted by the General Manager's Office Meeting;
- (2) to examine and approve significant individual fund trust business that the General Manager's Office Meeting considers necessary;
- (3) to examine and approve specific loan projects of proprietary funds of the Company;
- (4) to examine and approve disposal plans of projects at risk invested by collective trusts of the Company or individual trusts that the General Manager's Office Meeting considers necessary;
- (5) to submit annual work report to the Board; and
- (6) other duties authorised by the Board.

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

# CORPORATE GOVERNANCE REPORT

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

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Wan Zhong ( <i>Chairperson</i> )	62/62
Mr. Jin Tongshui	62/62
Mr. Yue Zengguang	62/62

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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

## Strategies and Risk Management Committee

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

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

- (1) to research and propose recommendations on medium and long-term development strategies of the Company according to the macro-economic environment, trend of industry development and the operating position of the Company;
- (2) to inspect, supervise and evaluate the implementation of the development strategy of the Company;
- (3) to organise and formulate special plans for development of trust business and proprietary business of the Company;
- (4) to understand and master the major risks faced by the Company and its risk management status;
- (5) to consider the annual or special risk management reports of the Company;
- (6) to review the soundness of the risk management mechanism of the Company, effectiveness of the policies and measures, and rationality of the risk control process;
- (7) to consider the risk strategies and major risk management solutions, as well as criteria or mechanism for judgment of major decisions, major risks, major events and important business flow;
- (8) to review and supervise the compliance and implementation of laws and regulations of the Company;

# CORPORATE GOVERNANCE REPORT

- (9) to provide advice and recommendations for risk prevention and control of the trust business of the Company; and
- (10) other duties as stipulated by the Board.

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

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

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Wan Zhong ( <i>Chairperson</i> )	1/1
Mr. Xiao Hua	1/1
Mr. Yue Zengguang	1/1

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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

## Trust Committee

During the Reporting Period, the Trust Committee consisted of three members. From 25 March 2020, Ms. Wang Bailing, non-executive director, has been appointed as a member of the Trust Committee, and Mr. Ding Huiping, independent non-executive director, no longer serves as a member of the Trust Committee. At present, the Trust Committee includes two independent non-executive Directors, namely Mr. Yen Huai-chiang (Chairperson) and Ms. Wang Bailing, and an executive Director, namely Mr. Yue Zengguang. The Trust Committee being a special committee under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Trust Committee is accountable and reports to the Board.

The major duties of the Trust Committee are:

- (1) to examine the due payment of trust business of the Company and the realisation of the interests of beneficiaries;
- (2) to supervise the management and utilisation of collective trust properties;
- (3) to conduct regular evaluation for operation of the trust business of the Company and provide advice and suggestions for the development of trust business of the Company;
- (4) to consider specific measures for protecting the interests of the beneficiaries when the interests of the Company or Shareholders conflict with those of beneficiaries, and urge the Company to perform its entrusted duties according to laws to practically protect the legitimate interests of principals and beneficiaries;

# CORPORATE GOVERNANCE REPORT

- (5) to consider the conditions of protecting the interests of consumers of the Company; and
- (6) other duties stipulated by the Board.

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

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

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Yen Huai-chiang ( <i>Chairperson</i> )	1/1
Ms. Wang Bailing	1/1
Mr. Yue Zengguang	1/1
Mr. Ding Huiping	–

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video.

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

## Related Party Transaction Control Committee

During the Reporting Period, the Related Party Transaction Control Committee consisted of three members, including one independent non-executive Director, namely Mr. Ding Huiping (Chairperson) and an executive Director, namely Mr. Yue Zengguang and non-executive director Ms. Wang Bailing. The Related Party Transaction Control Committee being a special committee under the Board shall exercise its powers as stipulated by the Articles of Association and within the scope of delegation from the Board. The Trust Committee is accountable and reports to the Board.

The Related Party Transaction Control Committee shall be responsible for the management, examination, approval and risk control of related parties transactions, and shall perform the following major duties:

- (1) to study the regulatory requirements and management system of related parties transactions, formulate and improve the Company's related parties transaction system, operating procedures and management methods in accordance with the requirements of laws, regulations and policies;
- (2) to identify the related parties, define the related party transactions, review the legitimacy, compliance and fairness of the related party transactions, and provide recommendations to the Board;
- (3) to carry out preliminary examination on all kinds of business involving related parties transactions approved by the Board or the general meeting of shareholders, express written opinions to the Board on its legality, compliance, fairness and whether it will damage the interests of the Company or the parties to the trust, submit them to the Board for approval, and report to the board of supervisors;

# CORPORATE GOVERNANCE REPORT

- (4) to examine and approve related parties transactions and other matters related to related parties transactions within the scope authorised by laws and regulations and the general meeting of shareholders and the Board, and accept the filings of related parties transactions;
- (5) to conduct a special report to the Board on the implementation of the Company's related parties transaction management system and related parties transactions; and
- (6) other duties authorised by laws, regulations, relevant regulations of the securities regulatory authority where the Company's shares are listed and the board of directors.

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

During the Reporting Period, attendance of each member of the Related Party Transaction Control Committee attending committee meetings is set out in the following table.

<b>Name of Director</b>	<b>Number of meetings attended/ number of attendance required</b>
Mr. Ding Huiping ( <i>Chairperson</i> )	2/2
Mr. Yue Zengguang	2/2
Ms. Wang Bailing	2/2

*Note:* "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.

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



# CORPORATE GOVERNANCE REPORT

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

For details about the remuneration of Directors, Supervisors and five highest paid individuals of the Company, please refer to Note 13 to the consolidated financial statements. The number of senior management members whose remuneration fall within the ranges below are listed as follows:

	Number of individuals	
	Year ended 31 December 2020	2019
RMB500,000 and below		1
RMB500,001 – RMB1,000,000	1	1
RMB1,000,001 – RMB1,500,000	1	
RMB1,500,001 – RMB2,000,000	2	1
RMB2,000,001 – RMB2,500,000		1
RMB2,500,001 – RMB3,000,000		1
RMB3,000,001 – RMB3,500,000		
RMB3,500,001 – RMB4,000,000		
RMB4,000,001 – RMB4,500,000	1	
RMB4,500,001 – RMB5,000,000		
RMB5,000,001 – RMB5,500,000		
RMB5,500,001 – RMB6,000,000	1	
RMB6,000,001 or above		1
Total	6	6

Note:

- (1) For details of the remuneration of Mr. Yue Zengguang, please refer to Note 13 to the consolidated financial statements in this annual report.

# CORPORATE GOVERNANCE REPORT

## Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their duties for preparing the financial statements of the Company for the year ended 31 December 2020 which give a true and fair view of the Group as well as the affairs of the Company and of the Company's results and cash flows.

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

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 158 of this annual report.

## Risk Management and Internal Control

### *Risk Management and Internal Control Systems*

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

During the Reporting Period, for details of establishment of the risk management systems, risk management structure and control measures of the Company, please refer to "Risk Management" under the section headed "Management Discussion and Analysis" in this annual report.

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

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

# CORPORATE GOVERNANCE REPORT

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

## *Internal Auditing*

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

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

Under the leadership of the Audit Committee of the Board, the Audit Department organised and coordinated the Company's annual internal audit during the Reporting Period based on the annual internal audit work plan for 2020. Additionally, the Company organised the risk management and internal control assessment team as well as relevant departments to closely cooperate with the external auditors in the work of internal control audit of financial statements. The internal control audit has performed auditing for all key processes and control points related to major accounting subjects. The external auditors regularly communicated with the management on audit results.

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

- (1) The Company audited 2019 operating activities, business performance and internal management of the Company. The Company attached great importance to the implementation of internal control, development of regulation system and compliance system of the Company, as well as the enhancement of risk management and control and the ability to withstand risk. The Company actively provided advice and suggestions for the optimisation of corporate operation and management and enhancing corporate value, so as to perform obligation of internal auditors to supervise;

# CORPORATE GOVERNANCE REPORT

- (2) The Company objectively evaluated the development of 2019 internal control system of the Company, carrying out the evaluation of internal controls in terms of control environment, risk assessments, control activities, information and communication and internal supervision of the Company. The Company provided remedial measures for the possible internal control deficiencies, constantly improving and streamlining the internal control system of the Company;
- (3) The Company conducted targeted inspections on existing trust business on a regular basis and focused on the compliance of business implementation, completeness of duty performance and validity of internal supervision in terms of projects approval, due diligence review, project approval, project establishment and duration management, so as to improve standard business management;
- (4) The Company conducted dynamic monitoring on the quality of the system data used in the trust business, and supervised the processing of system data used in the trust business and the progress of the upgrade and perfection works through regular full-scope checking and random testing, with an aim to ensure the accuracy of the quality of system data for its businesses and provide great support for improving efficiency of operation and management;
- (5) The Company conducted targeted inspections on credit management work and focused on the completeness of internal control system and the compliance of practical operation in respect of organisational structure, user management, query and application and information security, and actively eliminated potential risks;
- (6) The Company conducted targeted inspections on the protection of the rights and interests of consumers, and attached great importance to the completeness of the organisational structure, the compliance of system construction and execution, the effectiveness of whole-process business control as well as the effectiveness of publicity and education, and fully disclosed potential risks and properly protected the legitimate rights and interests of consumers;
- (7) The Company conducted targeted inspections on anti-money laundering, carried out combing and screening of the completeness of the system and the compliance of operating procedures from the aspects of organisational structure, internal control, customer identification, information technology, training and publicity, we have focused on the completeness of the system and the compliance of operating procedures to ensure that the duties of antimoney laundering are fulfilled; and
- (8) The Company conducted special inspections on the Company 's information technology work, focusing on information technology, information technology risk management, IT strategic planning, data management, infrastructure construction and outsourcing management, etc. The Company has carried out key checks on the compliance and risk management of the Company 's information technology work to ensure that the information technology construction provides effective support for the Company 's stable and robust business and sustainable development.

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

# CORPORATE GOVERNANCE REPORT

## SENIOR MANAGEMENT

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

The details of brief biographical details of the senior management are set out in the section headed “Details of Directors, Supervisors and Senior Management” of the annual report.

## REMUNERATION OF THE AUDITORS

For the year ended 31 December 2020, the annual audit service payable to the auditor by the Company amounted to RMB2.09 million (tax inclusive), and the annual service fee payable for non-audit service (i.e., reviewing the Environmental, Social and Governance Report) amounted to RMB40,000 (tax inclusive).

## JOINT COMPANY SECRETARIES

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

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Mr. Lee Kwok Fai, Kenneth (“**Mr. Lee**”) as the other joint company secretary to assist Mr. He to discharge his duties as the company secretary of the Company, with Mr. He acting as his primary contact person of the Company.

Mr. He and Mr. Lee have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2020.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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



# CORPORATE GOVERNANCE REPORT

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

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

## TRANSPARENCY OF INFORMATION DISCLOSURE SYSTEM

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

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

## SHAREHOLDERS' RIGHTS

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



# CORPORATE GOVERNANCE REPORT

## Convening an Extraordinary General Meeting

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

- (1) the number of directors is less than the number required by the PRC Company Law or less than two-thirds of the number stipulated in the Articles of Association;
- (2) the outstanding loss of the Company has reached one-third of the total paid-up capital;
- (3) Shareholders who individually or jointly hold 10% or more of the shares of the Company have requested to convene the extraordinary meeting in writing;
- (4) the Board deems it necessary to convene the meeting;
- (5) the Board of Supervisors proposes to convene the meeting; and
- (6) any other circumstances as stipulated by the laws, administrative regulations, departmental rules or the Articles of Association.

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

## Put Forward Proposals at General Meetings

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

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

## Enquiries to the Board

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

# CORPORATE GOVERNANCE REPORT

## CONVENING OF GENERAL MEETING OF THE YEAR

### Subjects of General Meeting and the Content of Resolutions

The Company held the 2019 Annual General Meeting on 17 June 2020, and considered and approved resolutions including 2019 Work Report of the Board, 2019 Work Report of the Independent Directors, 2019 Work Report of the Board of Supervisors, 2019 Profit Distribution Plan, the grant of general mandate to issue Shares to the Board, Proposed Amendments to the Articles of Association, and the Board is authorised to complete the procedures for the approval and/or registration or filing of the amendments to the Articles of Association, Proposed Amendments to the Procedural Rules for the General Meeting, Proposed Amendments to the Procedural Rules for Board Meeting pursuant to the applicable laws and regulations and/or at the request of the relevant Government Departments and Regulatory Authorities.

### Performance of Duties by the Board and Its Committees

#### *Board of Directors*

The Company convened the 15th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 17 January 2020, at which the Resolution on Lucion Investment 's intention to obtain licences No. 4 and No. 9 in Hong Kong was considered and approved.

The Company convened the 16th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 27 January 2020, at which the Resolution on the Donation to control and prevention of COVID-19 in Hubei was considered and approved.

The Company convened the 17th Board meeting of the second session of the Board of the Company by way of physical meeting on 26 March 2020, at which the 2019 Work Report of the Board (Draft), the Resolution of 2019 Financial Report (Draft) and the Resolution on 2019 Profit Distribution Plan (Draft) were considered and approved.

The Company convened the 18th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 18 May 2020, at which the Resolution on the Company's participation in Voting on Matters Related to the Introduction of Strategic Investors by Taishan Property & Casualty Insurance Co., Ltd. was considered and approved.

The Company convened the 19th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 17 June 2020, at which the Resolution on the 2019 Environmental, Social and Governance Report of SITC was considered and approved.

The Company convened the 20th Board meeting of the second session of the Board of the Company by way of physical meeting on 25 August 2020, at which the Resolution on 2020 Interim Report and the Announcement of Interim results of SITC was considered and approved.

The Company convened the 21th Board meeting of the second session of the Board of the Company by way of physical meeting on 28 September 2020, at which the Resolution on the Transfer Plan of Sinotruk Finance Co., Ltd. was considered and approved.

# CORPORATE GOVERNANCE REPORT

The Company convened the 22th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 25 November 2020, at which the Resolution on Amendments to the Administrative Measures for the Related Party Transactions was considered and approved.

The Company convened the 23th Board meeting of the second session of the Board of the Company by way of physical meeting on 3 December 2020, at which the Resolution on the Non-Public Agreement of the Transfer of Entire 45% Equity Interest in First-Trust Fund Management Co., Ltd. to Luxin Group was considered and approved.

The Company convened the 24th Board meeting of the second session of the Board of the Company by way of correspondence meeting on 16 December 2020, at which the Resolution on Establishment of Shandong Business Department was considered and approved.

## *Committees under the Board*

In 2020, the Audit Committee convened three meetings, considered and reported to the Board on the Resolution on the 2019 Annual Report and the Announcement of Annual Results (Draft), Resolution on the 2019 Financial Report of the Company (Draft) and the Resolution on 2020 Interim Report and the Announcement of Interim results of SITC, and provided important comments and recommendations on the financial management, external auditing, internal auditing and internal control of the Company.

In 2020, the Business Decision Committee convened a total of 62 meetings, of which 203 trust projects were considered and approved.

In 2020, the Trust Committee convened one meeting to consider and approve and report to the Board on the Resolution on Due Payment and Benefits Realisation of Beneficiaries in relation to the Trust Business of the Company for the Year 2019 (Draft) and the Report on the Performance of the Trust Committee for the Year 2019 (Draft), providing rational suggestions for innovation of the family trust business, protection of rights of consumers, popularisation of trust knowledge and investor education.

In 2020, the Remuneration Committee convened two meetings to consider and approve and report to the Board on the Report on the Performance of the Remuneration Committee for the Year 2019 (Draft) and the Resolution on the 2019 Remuneration Plan for the Directors. The Remuneration Committee called for advice and suggestions in respect of remuneration management and assessment for Directors and senior management, remuneration system and incentive measures of the Company and provide reasonable suggestions.

In 2020, the Strategies and Risk Control Committee convened one meeting to consider and approve and report to the Board on the 2019 Compliance Risk Management Evaluation Report (Draft) and the Report on Implementation of the Resolution on the Risk Tolerance for the Year 2019 (Draft). The Committee also provided recommendations on the long-term development strategies and risk management of the Company based on the regulatory policies and industry development trend.

In 2020, the Human Resources and Nomination Committee convened one meeting to review the structure of the Board, assess the independence of independent Directors, and consider and approve and report to the Board on the Resolution on the Report on Performance of Personnel and Nomination Committee for the Year 2019 (Draft) and the Resolution on the Establishment of the Related Party Transactions Control Committee of the Board and Adjustment of the Composition of the Trust Committee of the Board (Draft)

# CORPORATE GOVERNANCE REPORT

In 2020, the Related Party Transaction Control Committee convened two meetings to consider and approve and report to the Board on issues related to related party transactions including the Resolution on Amendment of Certain Provisions of Administrative Measures for the Related Party Transactions of Shandong International Trust Co., Ltd. and the Resolution on the Non-Public Agreement of the Transfer of Entire 45% Equity Interest in First-Trust Fund Management Co., Ltd. to Luxin Group, and provided reasonable proposals on the improvement of the management system of related party transactions of the Company, etc..

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

All committee members attended the above respective meetings.

## Implementation of Matters Proposed and Authorised in the General Meeting

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

## Performance of Duties of the Board Committees

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

## Performance of Duties of the Independent Directors

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

## Amendments to the Articles of Association

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

# REPORT OF THE BOARD OF DIRECTORS

## PRINCIPAL BUSINESSES AND BUSINESS REVIEW

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

In particular, please refer to "Business Overview", "Environment Overview", "Risk Management", "Liquidity and Financial Resources", "Future Prospects" and "Key Tasks for 2021" under the section headed "Management Discussion and Analysis" in this annual report for the business review, discussion and analysis of the performance for the year, principal risks and uncertainties and future business development of the Company. Please refer to "Financial Overview" under the section headed "Management Discussion and Analysis" for analysis of the key financial performance indicators of the Company. Please refer to "Risks Management" under the section headed "Management Discussion and Analysis" for the relevant laws and regulations compliance of which would have a significant impact on the Company. Please refer to "Human Resources Management" under the section headed "Management Discussion and Analysis" in this annual report and "Major Clients and Suppliers" in this section for the Company's relationships with its employees, clients and parties who have a significant impact on the Company.

## RESULTS

The results of the Company for the year ended 31 December 2020 are set out in the independent auditor's report.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

## PROFITS AND DIVIDENDS DISTRIBUTION

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



# REPORT OF THE BOARD OF DIRECTORS

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

- (1) make up for the loss in the previous year (if any);
- (2) appropriate an amount equivalent to 10% of profits after tax to statutory reserve. When aggregate amount reaches 50% of the registered capital of the Company, no appropriation to statutory reserve is necessary;
- (3) appropriate an amount not less than 5% of profits after tax to trust compensation reserve. When aggregate amount reaches 20% of the registered capital of the Company, the Company needs not to withdraw additional funds to the reserve; and
- (4) appropriate funds (if any) to any surplus reserve approved by Shareholders at the General Meeting.

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

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

The details of the Company’s profits for the year ended 31 December 2020 are set out in the section headed “Management Discussion and Analysis – Financial Overview” in this annual report.

As approved by the 2019 Annual General Meeting 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.

In order to enhance the capital reserve of the Company, the Company didn’t declare the final dividend for 2020.

## RESERVES AND DISTRIBUTABLE RESERVES

The details of the changes in the reserves of the Company for the year ended 31 December 2020 are set forth in Note 31 and Note 32 to the audited consolidated financial statements, and in the consolidated statement of changes in equity on page 165, respectively.



# REPORT OF THE BOARD OF DIRECTORS

## FINANCIAL SUMMARY

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

## DONATIONS

For the year ended 31 December 2020, there were approximately RMB0.5 million of charity donations and other donations made by the Company.

## PROPERTY, PLANT AND EQUIPMENT

None of the properties held by the Company had any percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of more than 5%. Details in relation to the changes in property and equipment of the Company for the year ended 31 December 2020 are set out in Note 18 “Property, Plant and Equipment” to the consolidated financial statements.

## SHARE CAPITAL AND PUBLIC FLOAT

Details of the share capital and capital reserves of the Company for the year ended 31 December 2020 are set out in note 30 to the consolidated financial statements in this annual report.

As at 31 December 2020, the issued shares of the Company was 4,658,850,000 shares (of which 3,494,115,000 were Domestic Shares and 1,164,735,000 were H Shares). Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Hong Kong Stock Exchange and the Listing Rules) of the Company’s total issued share capital were held by the public during the listing date and up to the date of this annual report.

## 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.

## PRE-EMPTIVE RIGHTS

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

## MAJOR CLIENTS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate remuneration of the Company’s top five trust schemes in terms of trustee’s remunerations accounted for less than 30% of the Company’s total fee and commission income during the relevant period.

# REPORT OF THE BOARD OF DIRECTORS

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

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

## USE OF PROCEEDS

The Company was listed on the Hong Kong Stock Exchange on 8 December 2017. A total of 647,075,000 H Shares (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) were issued in the global offering. The offer price was HK\$4.56 per H Share. The nominal value is RMB1.00 per H Share. After deduction of (i) the net proceeds from the sale of the sale shares by the selling Shareholders in the global offering; and (ii) the underwriting commissions and other expenses in connection with the global offering, the net proceeds received by the Company from the global offering were approximately HK\$2,560.3 million.

The Company has settled all the proceeds to China. Save for the above, the remaining proceeds have been settled into the PRC, all of which have been categorised into our existing proprietary assets and allocated to different categories of assets. As at 31 December 2020, all the proceeds have been utilised in the manner as set out in the prospectus.

## MAJOR INVESTMENTS NOT FINANCED BY FUND-RAISING

For the year ended 31 December 2020, the Company did not have any major investment not financed by fund-raising.

## BORROWINGS

The Company's borrowings as at 31 December 2020 amounted to approximately RMB100 million. Details of the borrowings are set out in note 35 to the consolidated financial statements.

## DIRECTORS AND SUPERVISORS

The details of the biographical details of Directors and Supervisors are set out in the section headed "Details of Directors, Supervisors and Senior Management" on pages 75 to 89 of this annual report.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his/her independence during the Reporting Period pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent nonexecutive Directors to be independent pursuant to Rule 3.13 of the Listing Rules.

# REPORT OF THE BOARD OF DIRECTORS

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

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

## **REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

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

## **TERMS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

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

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

# REPORT OF THE BOARD OF DIRECTORS

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

During the period from the beginning of the Reporting Period to November 2020, Mr. Xiao Hua, a non-executive Director of the Company, is also the chairperson of Kunlun Trust, whose principal business is to manage assets as trustees for its clients in the PRC, competing with the businesses of the Company. Kunlun Trust is a non wholly-owned subsidiary of CNPC Assets Management, a substantial shareholder of the Company. Save as (i) the shareholding of CNPC Assets Management in the Company, (ii) Mr. Xiao Hua's directorship in the Company and Kunlun Trust and (iii) the positions held by Mr. Chen Yong, a Supervisor of the Company (who holds several positions in CNPC Assets Management and Kunlun Trust), the Company does not have any other relationship with CNPC Assets Management or Kunlun Trust. As such, the Directors are of the view that we are capable of carrying out our businesses independently from CNPC Assets Management and Kunlun Trust. In addition, the Company has adopted certain corporate governance measures to manage the conflict of interest arising from the competing interests of Mr. Xiao Hua.

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

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

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

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

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

## **PERMITTED INDEMNITY PROVISION**

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

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

# REPORT OF THE BOARD OF DIRECTORS

## FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP BETWEEN MEMBERS OF THE BOARD OF DIRECTORS

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

## MANAGEMENT CONTRACTS

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

## RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

## EQUITY-LINKED AGREEMENT

During the Reporting Period, the Company had not entered into or renewed any equity-linked agreement.

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

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

## CONNECTED TRANSACTIONS

### Transfer Issues of 45% Equity Interest in First-Trust Fund Management Co., Ltd.

On 14 December 2020, the Company entered into the Equity Transfer Agreement with Lucion Group (the "**Equity Transfer Agreement**"), pursuant to which the Company agreed to dispose of, and Lucion Group agreed to acquire, 45% equity interest in First-Trust Fund Management Co., Ltd. at a consideration of RMB133,943,300 upon and subject to the terms and conditions of the Equity Transfer Agreement (the "**Equity Transfer**"). Lucion Group is interested in 52.96% of the total issued share capital of the Company, making it the controlling shareholder and a connected person of the Company. Accordingly, the Equity Transfer constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is exempted from the circular (including independent financial advice) and the independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules but are subject to the annual reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules. For details of the Equity Transfer and Equity Transfer Agreement, please refer to the announcement of the Company published on 14 December 2020. As at the date of the annual report, the Equity Transfer has yet to be completed.

# REPORT OF THE BOARD OF DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS

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

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

#### 1. *Trust Consulting Framework Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.*

The Company entered into a trust consulting framework agreement with Shandong Taishan Culture Art Exchange Co., Ltd. on 16 November 2017, whereby the Company in its capacity as a trustee engaged Shandong Taishan Culture Art Exchange Co., Ltd. from time to time to provide consulting services in relation to a number of artwork investment collective trusts that are or will be managed by the Company. The Trust Consulting Framework Agreement was entered into on normal commercial terms and took effect on the Listing Date of the Company with a term of three years.

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

The Company renewed the trust consulting framework agreement with Shandong Taishan Culture Art Exchange Co., Ltd. on 26 August 2019. The renewed trust consulting framework agreement was entered into on normal commercial terms with a term of three years commencing from 1 January 2020. The Company has determined the annual caps for the three years ending 31 December 2020, 2021 and 2022.

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

The Company entered into an information technology service framework agreement with Lucion Science and Technology Co., Ltd. on 16 November 2017, whereby the Company engaged Lucion Science and Technology Co., Ltd. to provide information technology services to the Company, including system maintenance, research and development and consulting services in relation to information technology systems and administrative services involving information technology work. Lucion Science and Technology Co., Ltd. shall also assist the Company in the procurement of software and hardware equipment. The Information Technology Service Framework Agreement was entered into on normal commercial terms and took effect on the Listing Date of the Company for a term of three years.



# REPORT OF THE BOARD OF DIRECTORS

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

The Company renewed the information technology service framework agreement with Lucion Science and Technology Co., Ltd. on 26 August 2019. The renewed information technology service framework agreement was entered into on normal commercial terms for a term of three years commencing from 1 January 2020. The Company has determined the annual caps for the three years ending 31 December 2020, 2021 and 2022.

### 3. *Outdoor Advertising Framework Agreement entered into with Shandong Lucion Advertisement Co., Ltd.*

The Company entered into such Outdoor Advertising Framework Agreement (“**Existing Lucion Outdoor Advertising Framework Agreement**”) with Shandong Lucion Advertisement Co., Ltd. on 16 November 2017, whereby the company hired Shandong Lucion Advertisement Co., Ltd. to design, produce and maintain various outdoor billboards for the Company. The Existing Outdoor Advertising Framework Agreement was entered into on normal commercial terms and took effect on the Listing Date of the Company for a term of three years.

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

The transactions under the Existing Lucion Outdoor Advertising Framework Agreement were full-exempted continuing connected transactions. The Company renewed such Outdoor Advertising Framework Agreement with Shandong Lucion Advertisement Co., Ltd. on 26 August 2019. The renewed Outdoor Advertising Framework Agreement was entered into on normal commercial terms for a term of three years commencing from 1 January 2020. The transactions contemplated under the renewed Lucion Outdoor Advertising Framework Agreement are non-exempted continuing connected transactions. The company has determined annual caps for the three years ending 31 December 2020, 2021 and 2022.

In respect of renewing (1) Trust Consulting Framework Agreement; (2) Information Technology Service Framework Agreement; and (3) Outdoor Advertising Framework Agreement and its annual cap, the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules. Please refer to the announcement published by the Company on 26 August 2019 for details.

# REPORT OF THE BOARD OF DIRECTORS

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

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

### 1. *Management of Assets Entrusted by CNPC Assets Management and/or its Associates*

The Company entered into a trust framework agreement with CNPC Assets Management on 16 November 2017, pursuant to which the Company and CNPC Assets Management (for itself and on behalf of its associates) agreed to conduct CNPC trust transactions on normal commercial terms and in accordance with the pricing policy set out therein, and to provide trust services to CNPC Assets Management and its associates. The Trust Framework Agreement took effect on the Listing Date for a term of three years.

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

The Company renewed such trust framework agreement with CNPC Assets Management on 26 August 2019. The renewed trust framework agreement was entered into on normal commercial terms for a term of three years commencing from 1 January 2020. The Company has determined the annual caps for the three years ending 31 December 2020, 2021 and 2022.

### 2. *Management of Assets Entrusted by Lucion Group and/or its Associates*

The Company entered into a trust framework agreement with Lucion Group on 16 November 2017, pursuant to which the Company and Lucion Group (for itself and on behalf of its associates) agreed to conduct trust transactions on normal commercial terms and in accordance with the pricing policy set out therein, and to provide trust services to Lucion Group and its associates. Such trust framework agreement took effect from the Listing Date with a term of three years.

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

The Company renewed such trust framework agreement with Lucion Group on 26 August 2019. The renewed trust framework agreement was entered into on normal commercial terms for a term of three years commencing from 1 January 2020. The Company has determined the annual caps for the three years ending 31 December 2020, 2021 and 2022.

# REPORT OF THE BOARD OF DIRECTORS

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

The Company entered into a trust financing framework agreement with Lucion Group on 16 November 2017, pursuant to which the Company and Lucion Group (for itself and on behalf of its associates) agreed to conduct loan and financing transactions on normal commercial terms and in accordance with the pricing policy set out therein. The Trust Financing Framework Agreement took effect on the Listing Date for a term of three years.

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

The Company renewed such trust financing framework agreement with Lucion Group on 26 August 2019. The renewed trust framework agreement was entered into on normal commercial terms for a term of three years commencing from 1 January 2020. The Company has determined the annual caps for the three years ending 31 December 2020, 2021 and 2022.

During the Reporting Period, for the above continuing connected transactions subject to the annual reporting, announcement, circular and independent Shareholders' approval requirements, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements relating to above continuing connected transactions under Rules 14A.35, 14A.36, 14A.46 and 14A.53(3) of the Listing Rules. We have also complied with the requirements relating to annual review. For details of the above non-exempt continuing connected transactions, please refer to the section headed "Connected Transactions" of the Prospectus.

In respect of the renewal of the transactions contemplated under (i) the CNPC Assets Management Trust Framework Agreement; (ii) the Lucion Group Trust Framework Agreement; (iii) the Lucion Group Trust Financing Framework Agreement and their respective annual caps, the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules and obtained approval from independent Shareholders at the 2019 first extraordinary general meeting held by the Company. For details, please refer to the announcements and circular published by the Company on 26 August 2019, 14 October 2019 and 28 November 2019, respectively.

# REPORT OF THE BOARD OF DIRECTORS

The following table sets forth the respective annual caps and actual amounts for the non-exempt continuing connected transactions of the Company for the year ended 31 December 2020:

Continuing connected transactions	Annual caps for the year Ended 31 December 2020	Actual amounts for the year ended 31 December 2020
<i>(RMB in thousands)</i>		
<b>I. Continuing connected transactions subject to the annual reporting and announcement requirements</b>		
1. Framework Trust Consulting Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.	6,000	–
2. Information Technology Service Framework Agreement with Lucion Science and Technology Co., Ltd.	20,000	7,633
3. Framework Outdoor Advertising Framework Agreement with Shandong Lucion Advertisement Co., Ltd.	10,000	3,443
<b>II. Continuing connected transactions subject to the annual reporting, announcement, circular and independent shareholders' approval requirements</b>		
1. Management of Assets Entrusted by CNPC Assets Management and/or its associates Trustee's remuneration to be received from the trusts of which CNPC Assets Management and its associates are trustors Maximum outstanding balance of the assets and funds to be entrusted by CNPC Assets Management and its associates	140,000  4,000,000	–  –
2. Management of Asset Entrusted by Lucion Group and/or its associates Trustee's remuneration to be received from the trusts of which Lucion Group and its associates are trustors Maximum outstanding balance of the assets and funds to be entrusted by Lucion Group and its associates	130,000  500,000	61,742  5,786,466
3. Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by the Company Trustee's remuneration to be received from the trusts providing financing to Lucion Group and its associates Outstanding balance (including interests accrued thereon) of the loans or financing to Lucion Group and its associates	48,000  12,000,000	9,402  1,139,050

# REPORT OF THE BOARD OF DIRECTORS

## *Confirmation from independent non-executive Directors*

The independent non-executive Directors have reviewed the above continuing connected transactions during the Reporting Period, and confirmed such transactions have been:

- (1) entered into in the ordinary and usual course of business of the Company;
- (2) entered into on normal or better commercial terms; and
- (3) conducted in accordance with the relevant agreement whose terms are fair and reasonable and in the interests of the Shareholders as a whole.

## *Letter from the auditor*

The auditors of the Company have performed certain planned audit procedures for the above continuing connected transactions entered into by the Company for the year ended 31 December 2020, and concluded that such transactions:

- (1) have been approved by the Board ;
- (2) have followed the pricing policies of the Company in all material aspects;
- (3) were conducted in accordance with the relevant agreements for such transactions in all material aspects; and
- (4) have an aggregate amount not exceeding the relevant cap disclosed in the annual report.

### III. Fully Exempt Continuing Connected Transactions

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

# REPORT OF THE BOARD OF DIRECTORS

## RELATED PARTY TRANSACTIONS

Please refer to note 39 to the consolidated financial statements in this annual report for details of the significant related party transactions pursuant to IFRSs. For the connected transactions and continuing connected transactions pursuant to the requirements of the Listing Rules, please refer to the disclosure set out in this section. Save as disclosed in this section, other related party transactions disclosed in note 39 are not considered as connected transactions, or are exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

## COMPLIANCE WITH NON-COMPETITION UNDERTAKING

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

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

Lucion Group has provided written confirmation to the Company, confirming that it has been in compliance with the Non-competition Undertaking for the year ended 31 December 2020. Independent Non-executive Directors have reviewed the compliance conditions, and confirmed that the Controlling Shareholder has complied with the Non-competition Undertaking.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

## ENVIRONMENTAL POLICY

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



# REPORT OF THE BOARD OF DIRECTORS

Pursuant to Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance Report before 31 May 2021 in compliance with the provisions set out in the ESG (“ESG”) Reporting Guide in Appendix 27 to the Listing Rules.

## AUDIT COMMITTEE

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2020 and the financial statements for the year ended 31 December 2020 prepared in accordance with the IFRS.

## AUDITOR

PricewaterhouseCoopers was appointed as the auditor to audit the financial statements for the year ended 31 December 2020 prepared in accordance with the IFRS. The Company has not changed its auditor in the past three years. The enclosed consolidated financial statements prepared in accordance with the IFRS have been audited by PricewaterhouseCoopers. The term of office of PricewaterhouseCoopers is up to the end of the forthcoming annual general meeting of the Company.

## COMPOSITION OF THE BOARD

As at the date of this report of the Board of Directors, the composition of the Board of Directors is as follows:

Executive Directors: Mr. Wan Zhong and Mr. Yue Zengguang;

Non-executive Directors: Mr. Xiao Hua, Mr. Jin Tongshui and Ms. Wang Bailing; and

Independent Non-executive Directors: Mr. Yen Huai-chiang, Mr. Ding Huiping, Ms. Meng Rujing.

## EVENTS AFTER THE REPORTING PERIOD

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

By order of the Board  
*Chairperson of the Board*  
**Wan Zhong**

31 March 2021

# REPORT OF THE BOARD OF SUPERVISORS

## COMPOSITION OF THE BOARD OF SUPERVISORS

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

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

## FUNCTIONS AND AUTHORITIES AND OPERATION OF THE BOARD OF SUPERVISORS

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

- (1) to examine the financial conditions of the Company, understand the operations of the Company, and undertake the corresponding obligations of confidentiality, and the Board of Supervisors may, in the name of the Company, engage an accounting firm to independently examine the financial conditions of the Company, if necessary;
- (2) to supervise the performance of duties by the Directors and senior management members of the Company and to propose the removal of Directors and senior management members who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general meeting;
- (3) to urge Directors and senior management members of the Company to rectify their acts which impair the interests of the Company;
- (4) to propose to convene an extraordinary general meeting, and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meeting as stipulated by the PRC Company Law;
- (5) to put forward proposals at the general meetings;
- (6) to negotiate with Directors and senior management of the Company on behalf of the Company, or to initiate lawsuits against Directors and senior management of the Company in accordance with the PRC Company Law;
- (7) to be entitled to require Directors or senior management to attend meetings of the Board of Supervisors to answer questions;
- (8) verify financial information such as financial reports, business reports and profit distribution plans that the Board intends to submit to the general meeting and, in case any problem is identified, to be able to appoint, in the name of the Company, a registered accountant or practicing auditor to assist in reviewing such information, and the expenses shall be borne by the Company;

# REPORT OF THE BOARD OF SUPERVISORS

- (9) to elect the chairperson of the Board of Supervisors;
- (10) formulate the procedural rule for the Board of Supervisors; and
- (11) other functions and powers provided by applicable laws, regulations and the Articles of Association.

## MEETING OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors had held four meetings and considered and approved proposals and matters including the Work Report of the Board of Supervisors for the Year 2019 (Draft), 2019 Internal Control Self-Evaluation Report of SITC and Report of the External Auditor on the Audit Plan of the Company for the Year 2020.

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

<b>Supervisors</b>	<b>Number of meetings attended<sup>(1)</sup>/ number of attendance required</b>
<b>Board of Supervisors</b>	
Guo Shougui	4/4
Hou Zhenkai	4/4
Chen Yong	4/4
Wu Chen	4/4
Tian Zhiguo	4/4
Wang Zhimei	4/4
Zuo Hui	4/4
Zhang Wenbin	4/4
<b>Resigned Supervisors</b>	
Guan Wei <sup>(2)</sup>	4/4

Notes :

- (1) "Attendance" in meetings includes on-site attendance and attendance by way of telephone and video conference.
- (2) Guan Wei resigned from the position of Supervisor of the Company on 29 December 2020.

# REPORT OF THE BOARD OF SUPERVISORS

## WORK OF BOARD OF SUPERVISORS

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

### Performance Supervision

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

### Financial Supervision

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

### Internal Control Supervision

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

### Risk Supervision

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

### Internal Matters

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

# REPORT OF THE BOARD OF SUPERVISORS

## INDEPENDENT OPINIONS ISSUED BY THE BOARD OF SUPERVISORS

In accordance with the Articles of Association and relevant regulations, the Board of Supervisors for the year 2020 has discharged its supervisory duties against the performance of the Board and senior management of the Company. Comments on the relevant issues are as follows:

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

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

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

### Financial report

The financial report for the year of 2020 reflects a fair, true and complete view of the Company's financial position and operating results.

### Relevant advice and work plan for the year 2021

In 2021, the Board of Supervisors and each Supervisor will follow the PRC Company Law, the Guidelines for Governance of Trust Companies and the Articles of Association. The Board of Supervisors, together with its members, will continue to improve on its ability of work and level of supervision, proactively diversifying its mindset and diligently perform its duties, thereby helping the Company improve the corporate governance structure and the internal risk control, level insist on operations in compliance with applicable laws and regulations, safeguard the interest of the Company and its Shareholders and realise sustainable and healthy development.

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

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

29 March 2021

## CHANGE OF SHAREHOLDING STRUCTURE OF CONTROLLING SHAREHOLDER

On 9 January 2020, the registered capital of Lucion Group has increased from RMB3 billion to RMB11.5 billion, and the increasing 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 State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government ("**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 (the "**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 notified by Lucion Group that the Executives have confirmed to Lucion Group that according to Article 26 of the Takeovers Code, such transfers will not trigger the general obligation of Shandong Province Finance Bureau for the shares of the Company.

Upon the above changes of the shareholding of our 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.

## 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 Lucion Group. The change of equity interest has been approved by Shandong Office of CBIRC on 27 February 2020.



# SIGNIFICANT EVENTS

On 3 September 2020, the Company received a notice from Lucion Group that Shandong HighTech Venture Capital Co., Ltd. (“**Shandong High-Tech Investment**”), a wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. (“**Lucion Venture Capital**”) intends to transfer all of its direct shareholding of 4.83% equity interest in the Company, being a total of 225,000,000 domestic shares, to Lucion Group by way of non-public agreement at a transfer price of RMB2.1614 per share, with the total transfer price of RMB486,315,000 (the “**Proposed Equity Transfer**”).

The Proposed Equity Transfer will be conducted in accordance with the Measures for the Supervision and Administration of State-Owned Shares of Listed Companies (《上市公司國有股權監督管理辦法》) jointly promulgated by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, the Ministry of Finance of the PRC and the CSRC. As at 3 September 2020, Lucion Group holds 69.57% equity interest in Lucion Venture Capital. Lucion Venture Capital and Shandong High-tech Investment are non wholly-owned subsidiaries directly and indirectly held by Lucion Group, respectively. As Lucion Venture Capital is a company listed on the Shanghai Stock Exchange, the Proposed Equity Transfer involves related party transaction, which shall be subject to the applicable laws and regulations of the PRC and consideration and approval at the general meeting of Lucion Venture Capital, and submission to the relevant regulatory authorities including the CBIRC for review and approval. As at the date of this annual report, the Proposed Equity Transfer has not been completed.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The resolution of amendments to the Articles of Association approved at the 2019 first extraordinary general meeting of the Company has been approved by the Shandong Office of CBIRC on 25 March 2020.

In accordance with the relevant requirements of the Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period of Convening General Meetings of Shareholders and Other Matters Applicable to the Companies Listed Abroad (Guo Han [2019] No.97) (《國務院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)), and the Provisional Measures of Equity Management of Trust Companies (《信託公司股權管理暫行辦法》), the Company has amended the relevant articles of Articles of Association in relation to (i) the notice period of general meeting, the convening procedures and other matters; and (ii) the establishment the related party transaction control committee. The resolutions on the amendments to the Articles of Association were reviewed and approved by shareholders at the Company’s 2019 annual general meeting, H Share class meeting and the domestic share class meeting held on 17 June 2020, and took effect after being approved by the Shandong Office of CBIRC on 1 September 2020.

Save as disclosed above, as of the end of the Reporting Period and as of the date of this annual report, there had been no material change to the Articles of the Association. The Company’s Articles of Association are available on the websites of the Company and the Hong Kong Stock Exchange.

## **PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE GENERAL MEETING AND THE PROCEDURAL RULES FOR THE BOARD OF DIRECTORS**

Based on the above amendments to the Articles of Association, the Company amended correspondingly the terms of the Procedural Rules for the General Meeting regarding the notice period and convening procedures of the general meeting, and the terms of the Procedural Rules for the Board of Directors regarding the committees under the Board of Directors. The resolution on the 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 domestic shareholders class meeting of the Company dated 17 June 2020. The resolution of the amendments to the Procedural Rules for the Board of Directors was considered and approved by the shareholders at the 2019 AGM. The amendments to the Procedural Rules for the General Meeting and the Procedural Rules for the Board of Directors became effective upon approval by the Shandong Office of CBIRC on 1 September 2020.

## **MATERIAL LEGAL PROCEEDINGS AND ARBITRATION**

As at 31 December 2020, the Company, being the plaintiff and applicant, was involved in 5 pending material litigations or arbitration cases involving an amount of more than RMB10 million; the value of litigations and arbitration cases in which we were involved totaled approximately RMB944.61 million. These cases were mainly brought the Company us against the relevant counterparty clients due to their failure to repay the loans granted by the trusts of the Company.

As at 31 December 2020, the Company, being the defendant, was involved in 4 pending material litigations or arbitration cases, of which the amount in dispute was more than RMB10 million; the value of the cases in which we were involved totalled approximately RMB138.75 million. Such cases were mainly contractual disputes.

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

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

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

On 3 August 2020, Shandong Office of CBIRC issued the “Administrative Penalty Decision” (Lu Yin Bao Jian Fa Jue Zi [2020] No. 24) to the Company to impose a fine of RMB700,000 for the non-compliance of the individual project of the Company in 2016 and insufficient management of employees’ behaviors during the period from 2012 to 2016. As of the date of this annual report, the Company has paid the above fines.

Save as disclosed above, during the Reporting Period, no penalty was imposed on the Company and the Directors, Supervisors, senior management of the Company.

# SIGNIFICANT EVENTS

## PROVISIONAL REPORT ON MATERIAL ISSUES

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

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

Save as disclosed in this annual report, for the year ended 31 December 2020, the Company did not have other important information which the CBIRC and its provincial authorities considered necessary to inform clients and stakeholders.

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

On 27 October 2020, in accordance with the unified deployment of the CBIRC, the Shandong Office of CBIRC issued the Notice of the office of Shandong Office of CBIRC on Carrying out a New Round of Special Self-Inspection of Real Estate Trust Business to the Company. The Company carried out the relevant self-inspection work according to the requirements of the notice and submitted the result of the self-inspection to the Shandong Office of CBIRC. From 9 November to 20 November 2020, the Shandong Office of CBIRC conducted an on-site investigation of the self-inspected real estate trust business of the Company and issued the Off-site Supervision Opinion to the Company on 24 December 2020. The Company carried out implementation in accordance with regulatory requirements and submitted relevant reports to the Shandong Office of CBIRC in accordance with regulatory requirements.

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

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## DISCLOSURE OF INFORMATION ON SUBSTANTIAL SHAREHOLDERS REQUIRED BY CBIRC

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

### Lucion Group

Lucion Group, established in the PRC in January 2002, is owned as to 97.39% by Shandong Province Finance Bureau and as to 2.61% by Shandong SSF as at the date of this annual report, respectively. Its legal representative is Li Wei. It has a registered capital of RMB11.5 billion, and its registered address is No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC. Lucion Group is an investment holding company, principally engaged in financial asset investment and management, venture capital, new energy and new materials, modern marine, printing investment, oil and gas investment and other investment operations business.

As at the end of the Reporting Period, the controlling shareholder of Lucion Group was Shandong Province Finance Bureau, and the de facto controller thereof was the People’s Government of Shandong Province. Lucion Group was acting in concert with Shandong High-Tech. The ultimate beneficiary of Lucion Group was the company itself. Lucion Group has reported its related parties to the Company in accordance with regulatory provisions.

As at 31 December 2020, Lucion Group directly held 2,242,202,580 Domestic Shares of the Company and owned 225,000,000 Domestic Shares of the Company indirectly through its controlled company, holding 2,467,202,580 Shares in total, representing 52.96% of the total share capital of the Company. Wan Zhong and Jin Tongshui, Directors of the Company, and Hou Zhenkai, a Supervisor of the Company, were nominated by Lucion Group. During the Reporting Period, no other additional Directors or Supervisors were nominated by Lucion Group. On 11 February 2020, 46,800,000 Domestic Shares of the Company held by Jinan Energy Investment Co., Ltd. were acquired by Lucion Group through judicial auction. The change in shareholding has been approved by the Shandong Office of CBIRC on 27 February 2020.

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## CNPC Assets Management

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

As at the end of the Reporting Period, the controlling shareholder of CNPC Assets Management was CNPC Assets Management Co., Ltd., and the de facto controller thereof was CNPC Capital Company Limited. CNPC Assets Management did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of CNPC Assets Management was the company itself. CNPC Assets Management has reported its related parties to the Company in accordance with regulatory provisions.

As at 31 December 2020, CNPC Assets Management held 873,528,750 domestic Shares in the Company, representing 18.75% of the total share capital of the Company. Xiao Hua, a Director of the Company, and Chen Yong, a Supervisor of the Company, were nominated by CNPC Assets Management. During the Reporting Period, no other additional Directors or Supervisors were nominated by CNPC Assets Management.

## Jinan Finance Holding Group Co., Ltd.

Jinan Finance Holding, established in May 2013, is a municipal first class enterprise and a liability state-owned company as approved to be established by Jinan Municipal Party Committee and State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government. It is wholly-owned by Jinan SASAC, which acts as an investor for and on behalf of the municipal government. Its legal representative is Wang Yuzhu, its registered capital is RMB8,855.1084 million, and its registered address is 11/F, Building No. 2, Zhongrun Century Center, No. 12111 Jingshi Road, Lixia District, Jinan, Shandong Province, the PRC. Jinan Finance Holding is principally engaged in asset investment, consulting, management and operation of state-owned assets as authorised by the government, capital operation and assets management; provision of information to the general public and ancillary services relating to financing facility, serving its the information agency or information platform within the approved areas.

As at the end of the Reporting Period, the controlling shareholder and the de facto controller of Jinan Finance Holding was Jinan SASAC and it did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Jinan Finance Holding was the company itself. Jinan Finance Holding has reported its related parties to the Company in accordance with regulatory provisions.

As at 31 December 2020, Jinan Finance Holding held 252,765,000 H Shares of the Company, representing 5.43% of the total share capital of the Company. Wang Bailing, Director of the Company, was nominated by Jinan Finance Holding. During the Reporting Period, no other directors and supervisors was nominated by Jinan Finance Holding.



# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## Shandong High-Tech Venture Capital Co., Ltd.

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

As at the end of the Reporting Period, the controlling shareholder and the party acting in concert of Shandong High-Tech were Lucion Group, and the de facto controller thereof was the People's Government of Shandong Province. The ultimate beneficiary of Shandong High-Tech was the company itself. Shandong High-Tech has reported its related parties to the Company in accordance with regulatory provisions.

As at 31 December 2020, Shandong High-Tech held 225,000,000 Domestic Shares of the Company, representing 4.83% of the total share capital of the Company. Guo Shougui, a Supervisor of the Company, was nominated by Shandong High-Tech. During the Reporting Period, no other additional Directors or Supervisors were nominated by Shandong High-Tech.

## Shandong Gold Group Co., Ltd.

Shandong Gold Group Co., Ltd., established in the PRC in July 1996, is a state-owned holding enterprise held by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government, Shandong Guohui Investment Co., Ltd. and Shandong Provincial Council for Social Security Fund. The legal representative is Chen Yumin, and the registered capital is RMB1,319.1456 million. The registered address is No. 2503, Jingshi Road, Liyu District, Jinan, Shandong Province, PRC. It is mainly engaged in gold geological exploration and exploitation; purification, processing, production and sale of gold and jewellery, gold selection and refinement and technical service.

As at the end of the Reporting Period, the controlling shareholder and de facto controller of Shandong Gold Group Co., Ltd. were Shandong SASAC, and Shandong Gold Group Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Shandong Gold Group Co., Ltd. Was the company itself. Shandong Gold Group Co., Ltd. has reported its related parties to the Company in accordance with regulatory provisions.

As of 31 December 2020, Shandong Gold Group Co., Ltd. held 80,073,468 Domestic Shares of the Company, representing 1.72% of the total share capital of the Company. Wu Chen, a Supervisor of the Company, was nominated by Shandong Gold Group Co., Ltd. During the Reporting Period, no other additional Directors or Supervisors were nominated by Shandong Gold Group Co., Ltd..

## Weifang Investment Group Co., Ltd.

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



# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

As at the end of the Reporting Period, the controlling shareholder and de facto controller of Weifang Investment Group Co., Ltd. were the State-owned Assets Supervision and Administration Commission of Weifang Municipal. Weifang Investment Group Co., Ltd. did not have any party acting in concert or any acting-in-concert arrangement with any entity or individual. The ultimate beneficiary of Weifang Investment Group Co., Ltd. was the company itself. Weifang Investment Group Co., Ltd. has reported its related parties to the Company in accordance with regulatory provisions.

As at 31 December 2020, Weifang Investment Co., Ltd. held 60,055,101 Domestic Shares of the Company, representing 1.29% of the total share capital of the Company. During the Reporting Period, no other additional Directors or Supervisors were nominated by Weifang Investment Co., Ltd..

## TABLE OF USE AND DISTRIBUTION OF TRUST ASSETS

As at 31 December 2020

Unit: RMB0'000

Use of assets	Amount	Distribution of assets		Amount	Portion (%)
		Portion (%)			
Currency assets	370,736.57	1.43%	Basic industry	2,512,819.06	9.66%
Loans	6,196,849.70	23.82%	Housing properties	5,962,622.09	22.92%
Tradable financial assets investment	2,479,757.76	9.53%	Securities market	5,281,099.86	20.30%
Available-for-sale financial assets investment	6,090.72	0.02%	Industry	8,052,413.39	30.96%
Held-to-maturity investment	10,952,212.75	42.10%	Financial institutions	1,923,731.44	7.40%
Long-term equity interest investment	1,233,297.86	4.74%	Others	2,280,105.66	8.76%
Others	4,773,846.14	18.36%			
<b>Total trust assets</b>	<b>26,012,791.50</b>	<b>100.00%</b>	<b>Total trust assets</b>	<b>26,012,791.50</b>	<b>100.00%</b>

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## COMBINED BALANCE SHEET OF TRUST PROJECTS

Prepared by: Shandong International Trust Co., Ltd.

31 December 2020

Unit: RMB0'000

Assets	Ending balance	Opening balance	Liabilities and equity	Ending balance	Opening balance
<b>Assets:</b>			<b>Liabilities:</b>		
Cash and bank deposits	347,262.53	369,541.32	Financial liabilities held for trading	-	-
Placement to banks and other financial institutions	-	-	Derivative financial liabilities	-	-
Clearing settlement funds	23,474.04	36,250.96	Disposal of repurchased financial assets	376,021.34	4,999.98
Financial assets held for trading	2,479,757.76	1,912,911.69	Account payable	0.04	0.04
Derivative financial assets	-	-	Redemption payables	29,803.62	211,619.85
Financial assets purchased under agreements to resell	18,379.70	69,802.31	Trustee's remuneration payable	16,512.62	21,495.11
Account receivables	-	-	Beneficiaries' gains payable	27,708.59	27,141.51
Interest receivables	137,626.55	45,968.23	Custodian fees payable	1,159.59	740.76
Dividend receivables	8,985.00	16,112.97	Service fees for sales payable	1.56	1.56
Note receivables	-	-	Tax payable	8,497.45	8,198.58
Application payment receivables	-	-	Interests payable	211.51	1.57
Other receivables	262,674.33	229,772.49	Other payables	115,192.58	19,578.40
Refundable deposits	-	-	Other liabilities	3,561.82	1,642.39
Loans to customers	6,196,849.70	10,509,347.27	Total liabilities	580,670.72	295,419.75
Long-term receivables	510,949.09	88,527.15	<b>Equity:</b>		
Available-for-sale financial assets	6,090.72	4,201.40	Paid-up trusts	24,869,730.03	25,766,445.72
Held-to-maturity investments	10,952,212.75	9,959,996.96	-Capital reserves	117,256.38	68,620.46
Long-term equity investments	1,233,297.86	1,458,016.10	Equalisation	-	-
Investment properties	-	-	Undistributed profit	443,134.37	327,577.60
Finance leasing assets	-	-	<b>Total equity</b>	<b>25,430,120.78</b>	<b>26,162,643.78</b>
Fixed assets	-	-			
Disposal of fixed assets	-	-			
Intangible assets	-	-			
Long-term amortisation expenses	-	-			
Other assets	3,835,231.47	1,757,614.68			
Total trust assets	26,012,791.50	26,458,063.53			
Less: provision for impairment of various assets	-	-			
<b>Total assets</b>	<b>26,012,791.50</b>	<b>26,458,063.53</b>	<b>Total liabilities and equity</b>	<b>26,012,791.50</b>	<b>26,458,063.53</b>

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## COMBINED STATEMENT FOR INCOME AND INCOME DISTRIBUTION OF TRUST BUSINESS

Prepared by: Shandong International Trust Co., Ltd.

Year of 2020

Unit: RMB'000

Item	Aggregate for Last year	Aggregate for this year
<b>I. Revenue</b>	1,861,916.30	<b>1,701,300.75</b>
Interest income	879,286.46	<b>689,829.64</b>
Investment income (losses indicated in "-")	878,551.04	<b>972,268.72</b>
Including: Income from investment in associates and joint ventures	-	-
Gains from change in fair value (losses indicated in "-")	102,761.82	<b>39,177.00</b>
Lease income	-	-
Exchange gains and losses (losses indicated in "-")	-	-
Other income	1,316.98	<b>25.39</b>
<b>II. Expenses</b>	240,256.04	<b>273,288.29</b>
Tax and surcharges	5,708.54	<b>5,450.48</b>
Trustees' remuneration	128,810.11	<b>126,578.96</b>
Custodian fees	9,736.31	<b>8,850.94</b>
Service fees for sale	5,141.25	-
Transaction costs	4,450.69	<b>3,536.82</b>
Interest expenses	-	-
Asset impairment losses	-	-
Other expenses	86,409.14	<b>128,871.09</b>
<b>III. Net profit (net losses indicated in "-")</b>	1,621,660.26	<b>1,428,012.46</b>
<b>IV. Other comprehensive income</b>	4,808.80	<b>36,486.57</b>
<b>V. Comprehensive income</b>	1,626,469.06	<b>1,464,499.03</b>
<b>VI. Undistributed profit at the beginning of the period</b>	246,867.72	<b>327,577.60</b>
<b>VII. Distributed trust profit for the period</b>	1,545,759.18	<b>1,348,942.26</b>
<b>VIII. Undistributed profit at the end of the period</b>	327,577.60	<b>443,134.37</b>

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

## MANAGEMENT OF TRUST ASSETS

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

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Collective	11,160,882.69	<b>8,559,205.24</b>
Individual	13,383,368.10	<b>13,467,499.39</b>
Property right	1,913,812.74	<b>3,986,086.87</b>
Total	26,458,063.53	<b>26,012,791.50</b>

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

Unit: RMB0'000

Trust scheme	Amount at the beginning of the period	Amount at the end of the period
Financing	3,752,414.69	<b>7,011,666.58</b>
Investment	7,215,311.55	<b>1,986,510.22</b>
Administrative	14,798,719.48	<b>15,871,553.23</b>
Total	25,766,445.72	<b>24,869,730.03</b>

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

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

Unit: RMB0'000

Types of settled trust scheme	Number of scheme	Total amount of paid-up trust	Weighted average actual annualised yield rate
Collective	267	5,206,997.66	6.81%
Individual	162	3,687,526.56	5.62%
Property right	6	31,985.60	14.49%

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

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

Unit: RMB0'000

Types of settled trust scheme	Number of scheme	Total amount of paid-up trust	Weighted average actual annualised return rate	Weighted average actual annualised yield rate
Financing	77	2,029,794.27	1.40%	7.27%
Investment	199	3,265,011.93	1.01%	6.62%
Administrative	159	3,631,703.62	0.24%	5.65%

# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

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

Unit: RMB0'000

Newly-added trust scheme	Number of scheme	Total amount of paid-up trust
Collective	113	3,368,058.76
Individual	254	842,061.71
Property right	3	2,935,131.97
Total of newly-added scheme	370	7,145,252.44
Including: actively managed	293	3,824,543.19
administratively managed	77	3,320,709.25

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

Unit: RMB0'000

	Connected transactions between trust and connected parties			Amount at the end of the period
	Amount at the beginning of the period	Amount from borrowers	Amount from lenders	
Loans	196,129.18	2,900.00	155,019.69	<b>44,009.49</b>
Investment	61,050.00	–	–	<b>61,050.00</b>
Leasing	–	–	–	–
Guarantee	–	–	–	–
Accounts receivable	–	–	–	–
Others	74,549.25	13,640.00	20,146.50	<b>68,042.75</b>
<b>Total</b>	<b>331,728.43</b>	<b>16,540.00</b>	<b>175,166.19</b>	<b>173,102.24</b>



# ADDITIONAL INFORMATION DISCLOSURE REQUIRED BY CBIRC

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

Unit: RMB0'000

Item	Transactions between proprietary properties and trust properties		
	Amount at the beginning of the period	Net amount for the period	Amount at the end of the period
Total	563,708.76	84,019.33	<b>647,728.09</b>

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

Unit: RMB0'000

Item	Transactions between trust assets and trust properties		
	Amount at the beginning of the period	Net amount for the period	Amount at the end of the period
Total	297,444.64	269,471.58	<b>566,916.22</b>

# INDEPENDENT AUDITOR'S REPORT

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

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

## OPINION

### What we have audited

The consolidated financial statements of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 161 to 262, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### Independence

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

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

- Consolidation assessment of trust schemes
- Expected credit loss (“ECL”) of loans to customers
- Working capital sufficiency assessment

### Key Audit Matter

### How our audit addressed the Key Audit Matter

Consolidation assessment of trust schemes

We obtained understanding of the management's controls over the consolidation assessment of trust schemes.

Refer to note 2.4, 2.7, 3(c) and 37 to the consolidated financial statements.

In addition, we selected samples of trust schemes that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of trust schemes:

The Group has managed or invested in a number of trust schemes. As at 31 December 2020, among all these trust schemes, total volume of approximately RMB16,927 million were consolidated by the Group while RMB231,770 million were not consolidated.

1. Understood the purpose and design of the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these trust schemes;
2. Inspected contract terms from these selected trust schemes, including management fee, direct investment and liquidity support, agreed such information to the corresponding inputs used in management's assessment on the variable returns and assessed the commitment by the Group to provide liquidity support to these trust schemes, if any;
3. Recalculated the variable returns to the Group from these trust schemes based on the contract terms;

Management performed assessment on each of the three elements of control (power to direct relevant activities of trust schemes, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the trust schemes) in accordance with International Financial Reporting Standard No.10 – Consolidated Financial Statements (“IFRS 10”), to determine whether the trust schemes managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acted as a principal, the Group controlled the trust schemes and the trust schemes should be consolidated.

# INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>We focused on this area because the amount of the trust schemes with which the Group had involvement was significant and the consolidation assessment of these trust schemes involved significant judgments.</p>	<p>4. Assessed the Group's role in the trust schemes as a principal or an agent through analysing the Group's ability to use its power to affect its variable returns from the trust schemes, benchmarking the level of variable returns that concludes the Group to be a principal against the guidance in IFRS 10.</p> <p>Based on the work undertaken above, we found the consolidation assessment of trust schemes performed by management was acceptable.</p>
<p>Expected credit loss ("ECL") of loans to customers</p> <p>Refer to note 2.16.1(ii), 3(a), 14, 21(c) and 42.1 to the consolidated financial statements</p> <p>As at 31 December 2020, the Group's gross loans to customers amounted to RMB14,304 million, and a loss allowance of RMB1,557 million was recognised in the Group's consolidated statement of financial position. The impairment losses on loans to customers recognised in the Group's consolidated income statement for the year ended 31 December 2020 amounted to RMB1,075 million.</p> <p>The balance of loss allowance for loans to customers represents the management's best estimate at the balance sheet date of expected credit losses using the model developed in accordance with International Financial Reporting Standard No. 9 – Financial Instruments ("ECL Models").</p>	<p>We obtained an understanding of the management's approach in calculating ECL and management's key controls over the measurement of expected credit losses for loans to customers. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as complexity, subjectivity and susceptibility to management bias or fraud.</p> <p>We evaluated the outcome of prior period of ECL for loans to customers to assess the effectiveness of management's estimation process.</p> <p>We evaluated and tested the key controls over the measurement of ECL for loans to customers.</p> <p>In addition, we have performed the following procedures:</p> <p>1. We assessed the modelling methodologies for ECL measurement based on industry practice, and the reasonableness of the portfolio segmentation, model selection, key parameters estimation, other significant judgements and assumptions in relation to the modelling;</p>

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matter

The Group assesses whether the credit risk of loans to customers has increased significantly since its initial recognition and apply a three-stage impairment model to calculate its ECL. For loans to customers in stage 1 and 2, management assesses loss allowance that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates after taking into consideration forward looking factors. For loans to customers in stage 3, management assesses loss allowance by estimating the future cash flows from the loans after taking into consideration forward looking factors.

The measurement model of expected credit losses involves significant management judgments and assumptions, primarily including the following:

- Choosing appropriate model and assumptions for the measurement of ECL;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- The estimated future cash flows for loans to customers in stage 3.

The estimation of expected credit losses is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of loan is considered significant due to the complexity of the models, which employ numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans to customers, and the impairment loss recognised in current period were significant. In view of these reasons, we identified this as a key audit matter.

## How our audit addressed the Key Audit Matter

2. We assessed management's criteria for determining whether or not there was a significant increase in credit risk, or loans that were default or credit impaired. In addition, we selected samples, in consideration of the financial and non-financial information of the borrowers, relevant external evidence and other factors, to validate the appropriateness of the management's identification of significant increase in credit risk, default and credit-impaired loans;
3. For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis;
4. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to validate their accuracy and completeness;
5. We examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance of loans to customers in stage 3.

Based on our procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, the ECL models, key parameters, significant judgement and assumptions adopted by management and the measurement results of ECL were considered acceptable.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matter

Working capital sufficiency assessment

Refer to Notes 2.1(b), 37(b) and 41 to the consolidated financial statements.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million. As at 31 December 2020, the Group had cash and bank balances totalling RMB970 million and the Group's current liabilities included RMB8,042 million in respect of net assets attributable to other beneficiaries of consolidated structured entities, within which, amounts totalling RMB5,208 million due to the "New Beneficiaries" as defined in Note 37(b) of a trust scheme falls due in May and June 2021. The Group will need to provide financial support to this trust scheme in order to repay the amounts due to the New Beneficiaries under the circumstances as described in Note 2.1(b). However, the Group may not have sufficient financial resources to do so without additional financial support. In addition, in February and March 2021, the Group acquired from another trust scheme it managed the rights to certain defaulted loans as described in Note 41.

Given the above conditions, to support the preparation of the Group's consolidated financial statements on a going concern basis, management performed an assessment with respect to the working capital sufficiency with a cash flow projection prepared for a period of not less than twelve months from 31 December 2020, involving significant judgements and key assumptions. In particular, the Group has taken into consideration the commitment from its parent company, Lucion Group, to provide financial support in the event of liquidity difficulties.

Based on the assessment results, management concluded that the Group will have adequate resources to continue its operations and to meet its financial obligations as and when they fall due in the next twelve months from the year end date and therefore the use of the going concern basis in preparing the consolidated financial statements is appropriate.

Given management's assessment in supporting the preparation of the Group's consolidated financial statements on a going concern basis involves significant judgements and assumptions, this matter was identified as a key audit matter.

## How our audit addressed the Key Audit Matter

In order to evaluate the reasonableness of management's assessment, we performed the following procedures to evaluate significant judgements and key assumptions underlying the assessment:

1. Obtained management's cash flow projection, discussed with senior management to understand their future operation plans and evaluated the underlying assumptions in the preparation of such projection;
2. Examined and assessed management's sensitivity analysis over the key assumptions including the level of fee and commission income, investment income, recoverability of loans to customers, operating expenses and potential outcome of the various measures adopted by management in mitigating the liquidity pressure;
3. Inspected contracts with trust schemes established and managed by the Group, on a sample basis, to assess any commitment by the Group to provide liquidity support to these trust schemes and its implications to the cash flow projection; and
4. In relation to the financial support provided by Lucion Group, we (1) inspected the details of the means to provide the support granted and related approval and governance procedures; (2) interviewed senior executives of Lucion Group in assessing their intention and financial strengths to honour such commitments with reference to the financial information of Lucion Group; (3) examined the legal opinions from the Group's external lawyers regarding the legality and enforceability of the financial support; and (4) circularised independent bank confirmations of the designated bank accounts of the Lucion Group and compared the balances to the committed level.

Based on the procedures performed, we considered management's assessment of working capital sufficiency is reasonably supportable with the available evidence.



# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

# INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

# INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, cursive script.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 31 March 2021

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December	
		2020	2019
Fee and commission income	5	1,152,419	1,037,771
Interest income	6	716,614	529,807
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	7	126,561	299,999
Investment income	8	146,181	14,231
Net gains on disposal of associates	9	109,920	3,062
Other operating income	10	53,935	1,796
<b>Total operating income</b>		<b>2,305,630</b>	1,886,666
Interest expenses	11	(620,516)	(137,873)
Staff costs (including directors and supervisors' emoluments)	12	(139,254)	(189,401)
Depreciation and amortisation		(13,588)	(10,406)
Change in net assets attributable to other beneficiaries of consolidated structured entities		(16,575)	(475)
Tax and surcharges		(11,317)	(18,917)
Administrative expenses		(78,998)	(71,883)
Auditor's remuneration		(1,972)	(1,792)
Impairment losses on financial assets	14	(1,058,799)	(688,059)
Impairment losses on other assets		(514)	(13,730)
<b>Total operating expenses</b>		<b>(1,941,533)</b>	(1,132,536)
<b>Operating profit</b>		<b>364,097</b>	754,130
Share of profit of investments accounted for using the equity method	15	368,874	123,705
<b>Profit before income tax</b>		<b>732,971</b>	877,835
Income tax expense	16	(105,153)	(213,929)
<b>Net profit attributable to shareholders of the Company</b>		<b>627,818</b>	663,906

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December	
		2020	2019
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Share of other comprehensive income from investments accounted for using the equity method	32	(6,870)	436
<b>Total other comprehensive income, net of tax</b>		<b>(6,870)</b>	436
<b>Total comprehensive income attributable to shareholders of the Company</b>		<b>620,948</b>	664,342
<b>Basic and diluted earnings per share attributable to the shareholders of the Company (in RMB yuan)</b>	17	<b>0.13</b>	0.14
<b>Total comprehensive income for the year attributable to shareholders of the Company arises from:</b>			
Continuing operations		620,948	664,342
Discontinued operations		–	–
		<b>620,948</b>	664,342

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		31 December	
	Note	2020	2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	122,135	126,522
Investment properties	19	145,139	148,825
Right-of-use assets		680	1,043
Intangible assets		13,672	5,829
Investments in associates	20	3,242,780	2,776,345
Financial assets at fair value through profit or loss	27	679,519	912,970
Loans to customers	21	9,641,926	5,659,408
Financial investments-amortised cost	22	50,288	18,541
Advance payments	23	20,097	25,326
Deferred income tax assets	24	315,759	230,110
Other non-current assets	25	188,932	359,503
<b>Total non-current assets</b>		<b>14,420,927</b>	10,264,422
<b>Current assets</b>			
Cash and bank balance	26	969,535	964,424
Financial assets at fair value through profit or loss	27	1,556,937	611,455
Financial assets purchased under resale agreements	28	107,147	11,026
Loans to customers	21	3,105,648	2,143,563
Financial investments-amortised cost	22	-	60,828
Trustee's remuneration receivable		165,875	214,056
Other current assets	29	357,752	302,516
<b>Total current assets</b>		<b>6,262,894</b>	4,307,868
<b>Total assets</b>		<b>20,683,821</b>	14,572,290
<b>Equity and liabilities</b>			
Share capital	30	4,658,850	4,658,850
Capital reserve	30	143,285	143,285
Statutory surplus reserve	31	903,941	845,282
Statutory general reserve	31	892,695	834,036
Other reserves	32	(7,735)	(865)
Retained earnings		3,584,088	3,329,825
<b>Total equity</b>		<b>10,175,124</b>	9,810,413



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	31 December	
		2020	2019
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Salary and welfare payable		24,157	48,899
Lease liabilities		122	346
Net assets attributable to other beneficiaries of consolidated structured entities	34	1,417,461	2,647,623
<b>Total non-current liabilities</b>		<b>1,441,740</b>	<b>2,696,868</b>
<b>Current liabilities</b>			
Short-term borrowings	35	100,000	320,000
Lease liabilities		573	708
Salary and welfare payable		85,876	61,961
Net assets attributable to other beneficiaries of consolidated structured entities	34	8,042,296	757,118
Income tax payable		31	186,357
Dividend payable		–	4,374
Other current liabilities	36	838,181	734,491
<b>Total current liabilities</b>		<b>9,066,957</b>	<b>2,065,009</b>
<b>Total liabilities</b>		<b>10,508,697</b>	<b>4,761,877</b>
<b>Total equity and liabilities</b>		<b>20,683,821</b>	<b>14,572,290</b>

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

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2021 and signed on its behalf by :

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital (Note 30)	Capital reserve (Note 30)	Statutory surplus reserve (Note 31)	Statutory general reserve (Note 31)	Other reserves (Note 32)	Retained earnings	Total
<b>Balance at 1 January 2020</b>	<b>4,658,850</b>	<b>143,285</b>	<b>845,282</b>	<b>834,036</b>	<b>(865)</b>	<b>3,329,825</b>	<b>9,810,413</b>
Net profit for the year	-	-	-	-	-	627,818	627,818
Other comprehensive income for the year	-	-	-	-	(6,870)	-	(6,870)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,870)</b>	<b>627,818</b>	<b>620,948</b>
Appropriation to statutory surplus reserve	-	-	58,659	-	-	(58,659)	-
Appropriation to statutory general reserve	-	-	-	58,659	-	(58,659)	-
Dividend distribution (Note 33)	-	-	-	-	-	(256,237)	(256,237)
<b>Balance at 31 December 2020</b>	<b>4,658,850</b>	<b>143,285</b>	<b>903,941</b>	<b>892,695</b>	<b>(7,735)</b>	<b>3,584,088</b>	<b>10,175,124</b>
<b>Balance at 1 January 2019</b>	<b>2,588,250</b>	<b>2,231,139</b>	<b>767,319</b>	<b>756,073</b>	<b>(1,301)</b>	<b>3,199,212</b>	<b>9,540,692</b>
Net profit for the year	-	-	-	-	-	663,906	663,906
Other comprehensive income for the year	-	-	-	-	436	-	436
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>436</b>	<b>663,906</b>	<b>664,342</b>
Appropriation to statutory surplus reserve	-	-	77,963	-	-	(77,963)	-
Appropriation to statutory general reserve	-	-	-	77,963	-	(77,963)	-
Share capital converted from capital reserve	2,070,600	(2,070,600)	-	-	-	-	-
Dividend distribution (Note 33)	-	-	-	-	-	(377,367)	(377,367)
Others	-	(17,254)	-	-	-	-	(17,254)
<b>Balance at 31 December 2019</b>	<b>4,658,850</b>	<b>143,285</b>	<b>845,282</b>	<b>834,036</b>	<b>(865)</b>	<b>3,329,825</b>	<b>9,810,413</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December	
		2020	2019
<b>Cash flows from operating activities</b>			
Profit before income tax		732,971	877,835
Adjustments for:			
Depreciation and amortisation		13,588	10,406
Impairment losses on financial assets	14	1,058,799	688,059
Impairment losses on other assets		514	13,730
Fair value changes in financial assets at fair value through profit or loss and investments in associates measured at fair value	7	(126,561)	(299,999)
Change in net assets attributable to other beneficiaries of consolidated structured entities		16,575	475
Net gains on disposal of associates	9	(109,920)	(3,062)
Share of profit of investments accounted for using the equity method	15	(368,874)	(123,705)
Interest expense		14,017	30,012
Dividend income from financial assets at fair value through profit or loss		(6,768)	(275)
Net (gain)/loss on disposal of property and equipment, intangible assets and other long-term assets		(19)	3
Subtotal		1,224,322	1,193,479
Net change in operating assets and operating liabilities:			
Increase in financial assets at fair value through profit or loss		(847,119)	(27,234)
Increase in loans to customers		(6,019,661)	(1,343,789)
Decrease in financial investments-amortised cost		27,400	38,016
(Increase)/Decrease in financial assets purchased under resale agreements		(96,121)	84,074
Net increase in net assets attributable to other beneficiaries of consolidated structured entities		5,743,898	1,023,835
Net decrease/(increase) in other operating assets		27,099	(2,030)
Net increase/(decrease) in other operating liabilities		451,525	(61,718)
Cash from operating activities before income tax		669,803	904,633
Income tax paid		(432,130)	(348,279)
<b>Net cash generated from operating activities</b>		<b>237,673</b>	<b>556,354</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December	
		2020	2019
<b>Cash flows from investing activities</b>			
Dividends received from investments accounted for using the equity method		79,972	73,355
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		1	547
Purchase of property and equipment, intangible assets and other long-term assets		(12,452)	(6,842)
Purchase of financial assets at fair value through profit or loss		(55,203)	(90,695)
Proceeds from sales of financial assets at fair value through profit or loss		301,154	463,418
Proceeds from disposal of investments in associates		142,538	50,001
Acquisition of investments in associates		(194,555)	(617,970)
<b>Net cash generate from/(used in) investing activities</b>		<b>261,455</b>	<b>(128,186)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans		700,000	1,340,000
Repayment of short-term loans		(920,000)	(1,470,000)
Interest expense paid		(14,017)	(30,012)
Dividends paid to shareholders	33	(260,611)	(372,993)
<b>Net cash used in financing activities</b>		<b>(494,628)</b>	<b>(533,005)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>611</b>	<b>(11,993)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,111</b>	<b>(116,830)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>964,424</b>	<b>1,081,254</b>
<b>Cash and cash equivalents at end of the year</b>	26	<b>969,535</b>	<b>964,424</b>
<b>Net cash flows from operating activities including:</b>			
Interest received		697,567	557,536
Interest paid		(311,907)	(253,194)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 1 GENERAL

Shandong International Trust Co., Ltd. ("Shandong Trust" or "the Company") is a non-bank financial institution incorporated in Shandong Province, the People's Republic of China (the "PRC") on 10 March 1987 with the approval from People's Bank of China ("PBOC") and Shandong Provincial Government. The Company was transformed from a wholly state-owned company to a limited liability company in August 2002 and further transformed to a joint stock limited company in July 2015. The Company completed its public offering on December 8, 2017 and its shares were listed on The Stock Exchange of Hong Kong Limited on the same day. As at December 31, 2020, the amount of share capital was RMB4,658,850,000 with a par value of RMB1 per share.

The Company is controlled by Shandong Lucion Investment Holdings Group Co., Ltd. ("Lucion Group"), which aggregately owns 52.96% of the shares of the Company at 31 December 2020. Lucion Group is further controlled by Shandong Provincial Department of Finance.

The Company operates under the financial service certificate No. 00606003 issued by the former China Banking Regulatory Commission (the "CBRC") 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' investment and wealth management needs. The proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business in order to maintain and increase the value of its proprietary assets.

The Company and its consolidated structured entities are collectively referred to as "the Group". The information of the Company's consolidated structured entities is provided in Note 37.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the relevant years presented unless otherwise stated. The financial statements are for the Group consisting of the Company and its consolidated structured entities.

### 2.1 Basis of preparation

#### (a) Compliance with IFRS and HKCO

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### (a) *Compliance with IFRS and HKCO (Continued)*

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

#### (b) *Going concern basis*

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million, with current assets of RMB6,263 million and current liabilities of RMB9,067 million. As at 31 December 2020, the Group had cash and bank balances totaling RMB970 million.

As at 31 December 2020, the Group's current liabilities included RMB8,042 million in respect of net assets attributable to other beneficiaries of consolidated structured entities. Included in these current liabilities are amounts totalling RMB5,208 million due to the "New Beneficiaries" as defined in Note 37(b) of a trust scheme (the "Trust Scheme") that falls due in May and June 2021.

The underlying assets of the Trust Scheme are consolidated within loans to customers as non-current assets with a principal amount of RMB7,000 million and a net carrying value of RMB5,974 million after allowance for expected credit loss as at 31 December 2020. These assets are real estate loans (the "Real Estate Loans") made to project development subsidiaries of a Real Estate Development Group (the "Real Estate Development Group"), and secured by land use rights and properties under construction associated with the projects, the share capital of the aforesaid project development subsidiaries as well as guarantees from the ultimate beneficiary owners of and other companies within the Real Estate Development Group. As a result of delays in the development of the projects, attributed to the COVID-19 pandemic and other factors, the Real Estate Development Group defaulted on the repayment of the principal and interest accrued on the Real Estate Loans that were due in May and June 2020 and remained overdue as at 31 December 2020. For details, please refer to Note 37(b). In the event that the Real Estate Development Group continues to be unable to repay these Real Estate Loans in May and June 2021, the Group will need to provide financial support in order to repay the amounts due to the New Beneficiaries. However, the Group may not have sufficient financial resources to do so without additional financial support.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### (b) *Going concern basis(Continued)*

As set forth in Note 37(b), the Group ordinarily has discretion to provide liquidity or other support to trust schemes it established and managed should they have liquidity issues in repaying their investors upon respective maturity. In reaching its decision, the Group takes into consideration various factors including the potential reputational implications to the Group, relationships with investors, as well as the likelihood of ultimately recovering payments from the underlying assets of the trust schemes. In February and March 2021, the Group acquired from another trust scheme it managed the rights to certain defaulted loans to the Real Estate Loan Group at face value of RMB2,000 million. The acquisition was partially financed by interest bearing borrowings from China Trust Protection Fund Co., Ltd. amounting to RMB1,600 million that fall due in February and March 2022 (see Note 41).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### (b) *Going concern basis(Continued)*

The Group has requested, and Lucion Group has committed, to provide financial support to ensure the Group will have sufficient financial resources to meet its obligations when they fall due within the next eighteen months from 31 December 2020 through measures including but not limited to the following:

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

As part of the commitment, Lucion Group and one of its subsidiaries have undertaken to maintain unrestricted demand deposits of not less than a certain amount in bank accounts until the end of June 2021 for the purpose of providing liquidity support to the Group as needed.

The Directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of not less than twelve months from 31 December 2020. They are of the opinion that, taking into account the abovementioned measures, in particular, the financial support from Lucion Group, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

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

The Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-Related Rent Concessions

The adoption of the amendments above has no material impact on the Group in 2020.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 2.2 Financial year

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

### 2.3 Functional currency

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

### 2.4 Basis of consolidation

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)*

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.5 Subsidiaries

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

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

### 2.6 Associates

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

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group elects to measure certain investments in associates held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds at fair value through profit or loss.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.7 Structured entities

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

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

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

For structured entities, the Group assesses whether they should be consolidated based on the contractual terms as to whether the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated structured entities of the Group are disclosed in Note 37(b). Third-party beneficiaries' interests in the consolidated structured entities with a limited life or puttable instruments issued are classified as liabilities in the consolidated statement of financial position, and net profits or losses attributable to third-party beneficiaries are recorded in "interest expense" for consolidated financing trust schemes or "change in net assets attributable to other beneficiaries of the consolidated structured entities" for consolidated investment trust schemes.

### 2.8 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) Purchased or originated credit-impaired ("POCI") financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.9 Fee and commission income

The Group earns fee and commission income from trust and other businesses it provides to its customers. Fee and commission income is recognised when the Group fulfils its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

On the balance sheet date, the Group re-estimates the progress of completion so that it can reflect changes in performance.

### 2.10 Dividend income

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

### 2.11 Government grants

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

### 2.12 Employee benefits

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

#### (a) *Short-term employee benefits*

In the reporting period in which an employee has rendered services, the Group recognises the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labour union fees and staff education expenses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.12 Employee benefits (Continued)

#### (b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plans are recognised in profit or loss for the period in which the related payment obligation is incurred.

### 2.13 Current and deferred income taxes

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

### 2.14 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognised in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as, deposits with banks with original tenors less than 3 months.

### 2.16 Financial assets and liabilities

#### *Measurement methods*

#### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### *Measurement methods (Continued)*

#### *Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### *2.16.1 Financial assets*

##### *(i) Classification and subsequent measurement*

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.1 Financial assets (Continued)

##### (i) Classification and subsequent measurement (Continued)

The classification requirements for debt and equity instruments are described below:

##### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, financial assets purchased under resale agreements and trustee's remuneration receivable.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

*Business model:* the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the financial assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.1 Financial assets (Continued)

##### (i) Classification and subsequent measurement (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net changes in fair value on financial assets at fair value through profit or loss' in the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.1 Financial assets (Continued)

##### (i) Classification and subsequent measurement (Continued)

###### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as investment income when the Group's right to receive payments is established. Changes in the fair value of equity investment at FVPL are recognised in "Net changes in fair value on FVPL" in the profit or loss statement. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

##### (ii) Impairment

The Group assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit loss measurement is disclosure in Note 42.1.2.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.1 Financial assets (Continued)

##### (iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.1 Financial assets (Continued)

##### (iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.2 Financial liabilities

##### (i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.2 Financial liabilities (Continued)

##### (ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

#### 2.16.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.16 Financial assets and liabilities (Continued)

#### 2.16.3 Determination of fair value (Continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

#### 2.16.4 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to offset the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### 2.16.5 Resale agreements

Consideration paid for financial assets purchased under resale agreements are recorded as such in the consolidated statement of financial position.

The difference between purchase and resale price is recognised as interest income in profit or loss over the term of the agreements using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.17 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

#### (a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

#### (b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values rates and annual depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20–40 years	3%	2.43%-4.85%
Motor vehicles	8 years	3%	12.13%
Equipment	3–5 years	3%	19.40%-32.33%
Furniture and others	5–10 years	3%	9.70%-19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.20.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.17 Property, plant and equipment (Continued)

#### (c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

### 2.18 Intangible assets

The intangible assets acquired separately and with finite useful lives are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses. Intangible assets with finite useful lives of the Group mainly include computer software which is amortised over 5 years.

Intangible assets with indefinite useful lives are not amortised but are subject to annual impairment assessment.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.20.

### 2.19 Foreclosed assets

When the Group's obligor uses foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised at fair value.

Impairment losses on foreclosed assets are accounted for in accordance with the accounting policies as set out in Note 2.20.

### 2.20 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.21 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### 2.22 Leases

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

#### *The Group as lessee*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.22 Leases (Continued)

#### *The Group as lessor*

A lease that transfers substantially all the risks and rewards associated with the ownership of the leased asset is a finance lease. Other leases are operating leases. The Group does not have finance lease.

#### (1) *Operating lease*

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

### 2.23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

### 2.24 Investment properties

Investment property is property held to earn rental income or for capital appreciation, or both. Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognised in the consolidated income statement in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization are recognised the same way as property and equipment and land use rights. The accounting policies of impairment of investment property are included in Note 2.20. Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognised. A reversal of an impairment loss is recognised in the consolidated income statement. When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)*

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.25 Segment reporting

The identification of operating segments of the Group is based on internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group has determined the management team represented by the general manager as its chief operating decision maker.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results are based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's consolidated financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

### (a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 42.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Choosing appropriate model and assumptions for the measurement of ECL;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- The estimated future cash flows for loans to customers in stage 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

### (b) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, and discounted cash flow analysis. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates, share price and index, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

### (c) Determination of control over trust schemes

Where the Company acts as trustee and asset manager of trust schemes it established, the Company makes judgement on whether it is the principal or an agent to assess whether the Company controls the trust schemes and should consolidate them. When performing this assessment, the Company considers several factors including, among other things, the scope of its decision-making authority over the trust schemes, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the trustee and management services, the Company's exposure to variability of returns from other interests that it holds in the trust schemes, for example direct investments. The Group performs re-assessment when the factors change.

### (d) Income taxes

The Group is subject to income taxes and significant judgement is required in determining provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Taxation matters are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 4 TAXATION

The main categories and rates of taxes applicable to the Company are set out below:

Type of tax	Tax rate	Tax base
Enterprise income tax	25%	Taxable income
Value added tax ("VAT")	3%(i)	Taxable income generated by trust schemes
	6%	Tax payable is calculated using the taxable income multiplied by the applicable tax rate ("output VAT") less deductible input VAT of current period
Urban maintenance and construction tax	7%	Value added tax
Educational surcharges	3%	Value added tax

- (i) In accordance with the Notice on Value-Added Tax of Asset Management products (Cai Shui (2017) No. 56) issued by the Ministry of Finance and the State Administration of Taxation, the Company is subject to VAT which is calculated at the rate of 3% of taxable investment income of trust schemes from 1 January 2018.

## 5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2020	2019
Trustee's remuneration	1,152,151	1,037,565
Others	268	206
<b>Total</b>	<b>1,152,419</b>	<b>1,037,771</b>

## 6 INTEREST INCOME

	Year ended 31 December	
	2020	2019
<b>Interest income from:</b>		
Cash and bank balance	4,131	4,782
Loans to customers	695,899	502,438
Financial investments-amortised cost	6,226	6,746
Financial assets purchased under resale agreements	6,326	8,912
Contribution to Trust Industry Protection Fund (i)	4,032	6,929
<b>Total</b>	<b>716,614</b>	<b>529,807</b>

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

	Year ended 31 December	
	2020	2019
<b>Net changes in fair value arising from:</b>		
Financial assets at fair value through profit or loss		
– Mutual funds	152,775	112,667
– Trust schemes	(20,971)	18,123
– Unlisted companies	20,424	64,883
– Listed shares	20,422	7,355
– Bonds	(78,337)	–
– Other asset management products	9,782	28,577
	104,095	231,605
Investments in associates (Note 20(c))	22,466	68,394
<b>Total</b>	<b>126,561</b>	<b>299,999</b>

## 8 INVESTMENT INCOME

	Year ended 31 December	
	2020	2019
<b>Dividends income from:</b>		
Financial assets at fair value through profit or loss	6,768	275
<b>Net realised gains from disposal of:</b>		
Financial assets at fair value through profit or loss	139,413	13,956
<b>Total</b>	<b>146,181</b>	<b>14,231</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 9 NET GAINS ON DISPOSAL OF ASSOCIATES

	Year ended 31 December	
	2020	2019
Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") (i)	54,882	–
Henan Liang Ding Property Co., Ltd.	55,038	–
Liaocheng Liang Hong Property Co., Ltd.	–	3,033
Others	–	29
<b>Total</b>	<b>109,920</b>	<b>3,062</b>

- (i) The Group's share percentage in an associate, Shandong Provincial Financial Asset Management Co., Ltd. ("Shandong AMC") was diluted from 7.24% to 1.50% with Shandong AMC's capital increase in 2020. Shandong AMC continues to be recognised as associate as the Group has one seat on its Board of Directors. The change of the Group's share in the net assets of the associate amounting to RMB54,882 thousand were recognised in profit or loss.

## 10 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Government grants (i)	51,360	–
Other miscellaneous income	2,575	1,796
<b>Total</b>	<b>53,935</b>	<b>1,796</b>

- (i) Government grants for the year ended 31 December 2020 mainly represent the amounts received for rewarding the Group's contribution to the cluster development of financial institutions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 11 INTEREST EXPENSE

	Year ended 31 December	
	2020	2019
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	14,017	30,012
Interest for placement from banks	80	352
Third-party beneficiaries' interests (i)	606,370	107,509
Others	49	–
<b>Total</b>	<b>620,516</b>	<b>137,873</b>

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

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

	Year ended 31 December	
	2020	2019
Salaries and bonuses	110,642	155,343
Pension costs (defined contribution plans)	7,068	10,895
Housing funds	6,276	6,462
Labour union fee and staff education expenses	2,997	6,044
Other social security and benefit costs	12,271	10,657
<b>Total</b>	<b>139,254</b>	<b>189,401</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

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

Name	Year ended 31 December 2020				Total
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
<b>Executive Directors</b>					
Wan Zhong (i)	–	682	1,078	99	1,859
Yue Zengguang (ii)	–	537	1,201	99	1,837
<b>Non-Executive Directors (iii)</b>					
Xiao Hua	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Wang Bailing (iv)	–	–	–	–	–
<b>Independent Non-Executive Directors</b>					
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing	100	–	–	–	100
<b>Supervisors</b>					
Wu Chen (v)	–	–	–	–	–
Guo Shougui (v)	–	–	–	–	–
Chen Yong (v)	–	–	–	–	–
Guan Wei (v) (vii)	–	–	–	–	–
Hou Zhenkai (v)	–	–	–	–	–
Wang Zhimei (v)	–	–	–	–	–
Tian Zhiguo (vi)	–	816	11	52	879
Zuo Hui (vi)	–	379	413	52	844
Zhang Wenbin (vi)	–	384	148	45	577
<b>Total</b>	<b>300</b>	<b>2,798</b>	<b>2,851</b>	<b>347</b>	<b>6,296</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

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

- (i) Wan Zhong is Chairman of the Company and his emolument disclosed above includes all the emoluments he receives from the Company.
- (ii) Yue Zengguang is also an employee of the Company and his emolument disclosed above includes all the emoluments he receives from the Company.
- (iii) These Non-executive Directors did not receive any emoluments from the Company.
- (iv) Wang Bailing was elected as Non-Executive Directors effective in March 2020.
- (v) The non-employee Supervisors did not receive any emoluments from the Company.
- (vi) These Supervisors are the employees of the Company and their emoluments disclosed above include all the emoluments they receive from the Company.
- (vii) Guan Wei resigned from the position of Supervisors in December 2020.

Discretionary bonuses are based on the business performance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

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

Name	Year ended 31 December 2019				Total
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
<b>Executive Directors</b>					
Wan Zhong	–	546	2,339	123	3,008
Yue Zengguang	–	541	479	110	1,130
<b>Non-Executive Directors</b>					
Xiao Hua	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
<b>Independent Non-Executive Directors</b>					
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing	100	–	–	–	100
<b>Supervisors</b>					
Wu Chen	–	–	–	–	–
Guo Shougui	–	–	–	–	–
Chen Yong	–	–	–	–	–
Guan Wei	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Zhimei	–	–	–	–	–
Tian Zhiguo	–	715	420	80	1,215
Li Aiping (i)	–	301	399	70	770
Zuo Hui	–	415	563	78	1,056
Zhang Wenbin (ii)	–	129	–	16	145
<b>Total</b>	<b>300</b>	<b>2,647</b>	<b>4,200</b>	<b>477</b>	<b>7,624</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

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

- (i) Li Aiping resigned from the position of employee representative supervisor in September 2019, and her resignation became effective in October 2019.
- (ii) Zhang Wenbin was elected supervisor effective in October 2019.

Discretionary bonuses are based on the business performance.

### (b) Five highest paid individuals

For the year ended 31 December 2020 and 2019, the five highest paid individuals of the Group do not include any director or supervisor, whose emolument has been disclosed above.

The aggregated emoluments of the five highest paid individuals for the year ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
Salaries and allowances and benefits	8,408	10,889
Discretionary bonuses	12,851	15,902
Contribution to pension schemes	465	407
Total	21,724	27,198

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

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

The emoluments fell within the following bands:

	Number of Individuals	
	Year ended 31 December	
	2020	2019
RMB500,001 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	–	–
RMB1,500,001 – RMB2,000,000	–	–
RMB2,000,001 – RMB2,500,000	1	–
RMB2,500,001 – RMB3,000,000	–	–
RMB3,000,001 – RMB3,500,000	3	1
RMB3,500,001 – RMB4,000,000	–	–
RMB4,000,001 – RMB4,500,000	–	–
RMB4,500,001 – RMB5,000,000	–	–
RMB5,000,001 – RMB5,500,000	–	–
RMB5,500,001 – RMB6,000,000	–	2
Above RMB6,000,000	1	2
Total	5	5

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 14 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended 31 December	
	2020	2019
Loans to customers	1,075,066	675,629
Financial investments-amortised cost	(95)	1,261
Trustee's remuneration receivable	(626)	5,687
Others	(15,546)	5,482
Total	1,058,799	688,059

## 15 SHARE OF PROFIT OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December	
	2020	2019
Fullgoal Fund Management Co., Ltd. (Note 20(b) (i))	273,438	135,487
Others (Note 20(b) (ii))	95,436	(11,782)
Total	368,874	123,705

## 16 INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
Current income tax	190,802	345,783
Deferred income tax (Note 24)	(85,649)	(131,854)
Total	105,153	213,929

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 16 INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2020	2019
Profit before income tax	732,971	877,835
Tax calculated at a tax rate of 25%	183,242	219,459
Tax effect arising from income not subject to tax (i)	(80,079)	(23,822)
Tax effect of expenses that are not deductible for tax purposes	1,990	18,292
Income tax expense	105,153	213,929

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

## 17 BASIC AND DILUTED EARNINGS PER SHARE

### (a) Basic earnings per share

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

	Year ended 31 December	
	2020	2019
Net profit attributable to shareholders of the Company	627,818	663,906
Weighted average number of ordinary shares in issue	4,658,850	4,658,850
Basic earnings per share	0.13	0.14

### (b) Diluted earnings per share

For the years ended 31 December 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 18 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Equipment	Furniture and others	Construction in progress	Total
<b>Cost</b>						
At 1 January 2020	138,374	3,632	13,032	3,564	17,317	175,919
Additions	–	–	3,310	421	–	3,731
Transfers	17,317	–	–	–	(17,317)	–
Disposals	–	(176)	(7)	–	–	(183)
At 31 December 2020	155,691	3,456	16,335	3,985	–	179,467
<b>Accumulated depreciation</b>						
At 1 January 2020	(36,342)	(3,264)	(8,620)	(1,171)	–	(49,397)
Charge for the year	(6,020)	(155)	(1,492)	(444)	–	(8,111)
Disposals	–	170	6	–	–	176
At 31 December 2020	(42,362)	(3,249)	(10,106)	(1,615)	–	(57,332)
<b>Net book value</b>						
At 31 December 2020	113,329	207	6,229	2,370	–	122,135

<b>Cost</b>						
At 1 January 2019	138,374	3,847	10,871	3,409	15,784	172,285
Additions	–	–	2,466	155	1,533	4,154
Disposals	–	(215)	(305)	–	–	(520)
At 31 December 2019	138,374	3,632	13,032	3,564	17,317	175,919
<b>Accumulated depreciation</b>						
At 1 January 2019	(30,603)	(3,349)	(7,430)	(775)	–	(42,157)
Charge for the year	(5,739)	(124)	(1,487)	(396)	–	(7,746)
Disposals	–	209	297	–	–	506
At 31 December 2019	(36,342)	(3,264)	(8,620)	(1,171)	–	(49,397)
<b>Net book value</b>						
At 31 December 2019	102,032	368	4,412	2,393	17,317	126,522

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 19 INVESTMENT PROPERTIES

The Group measured investment properties at cost method.

	Building
<b>Cost</b>	
At 1 January 2020	150,618
Additions	–
At 31 December 2020	150,618
<b>Accumulated depreciation</b>	
At 1 January 2020	(1,793)
Charge for the year	(3,686)
At 31 December 2020	(5,479)
<b>Net book value</b>	
At 31 December 2020	145,139



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 20 INVESTMENTS IN ASSOCIATES

(a) The amounts recognised in the consolidated balance sheet are as follows:

	31 December	
	2020	2019
<b>Associates of the Company, measured at equity accounting</b>		
Fullgoal Fund Management Co., Ltd. (b)(i)	869,824	658,056
Taishan Property & Casualty Insurance Co., Ltd. (b)(ii)	215,101	216,375
Shandong HOWO Auto Finance Co., Ltd. (b)(ii)	207,775	198,755
Shandong LuXin Xinjiu Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) (b)(ii)	148,739	78,501
Dezhou Bank Co., Ltd. (b)(ii)	110,344	107,888
First-Trust Fund Management Co., Ltd. (b)(ii)	52,410	47,469
Tailong Health Industry Investment Company Limited ("Tailong Health") (b)(ii)	35,626	–
Anhui Luxin Equity Investment Fund Management Co., Ltd. (b)(ii)	2,884	2,862
<b>Gross amount</b>	<b>1,642,703</b>	<b>1,309,906</b>
Less: Impairment allowance	–	–
<b>Subtotal</b>	<b>1,642,703</b>	<b>1,309,906</b>
<b>Associates indirectly held by the Group through consolidated structured entities, measured at equity accounting</b>		
Shandong AMC (b)(ii)	674,489	620,282
Tailong Health (b)(ii)	–	50,758
Others (b)(ii)	71,859	52,591
<b>Gross amount</b>	<b>746,348</b>	<b>723,631</b>
Less: Impairment allowance	(10,000)	(10,000)
<b>Subtotal</b>	<b>736,348</b>	<b>713,631</b>

NOTE: On 14 December 2020, the Company entered into an equity transfer agreement with Lucion Group to dispose of 45% of the equity interests of First-Trust Fund Management Co.,Ltd. As at December 31, 2020, the equity transfer has not been completed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 20 INVESTMENTS IN ASSOCIATES (CONTINUED)

- (a) The amounts recognised in the consolidated balance sheet are as follows (continued):

	31 December	
	2020	2019
<b>Associates indirectly held by the Group through consolidated structured entities, measured at fair value</b>		
Tengzhou Haide Park Property Co., Ltd.	151,210	53,980
Huizhou Zhengfeng Industrial Investment Co., Ltd.	120,000	120,000
Cangzhou Liangsheng Property Co., Ltd.	111,088	119,087
Nanyang Liangheng Real Estate Co., Ltd.	82,320	–
Tianjin Liangxin Property Development Co., Ltd.	89,047	87,546
Huangshi Liangsheng Real Estate Development Co., Ltd.	94,179	89,600
Tianjin Liangshun Property Development Co., Ltd.	70,496	72,174
Nanyang Zhongliang Chengtong Real Estate Co., Ltd.	49,315	44,680
Ankang Liangsheng Jiye Property Co., Ltd.	37,840	–
Yunan Hongshan City Investment Co., Ltd.	30,000	–
Weifang Hengru Real Estate Co., Ltd.	15,000	–
Shenzhen Qianhai Run Xin Investment Co., Ltd.	13,234	12,654
Henan Liang Ding Property Co., Ltd.	–	153,087
<b>Subtotal</b>	<b>863,729</b>	752,808
<b>Total</b>	<b>3,242,780</b>	2,776,345

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

Set out below is the associate of the Group as at 31 December 2020 which, in the opinion of the directors, is material to the Group. The country of incorporation or registration is also their principal place of business.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 20 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

#### (i) Summarised financial information for significant associate – Fullgoal Fund Management Co., Ltd.

Summarised balance sheet

	31 December	
	2020	2019
Current assets	8,025,531	4,888,608
Non-current assets	719,150	766,548
<b>Total assets</b>	<b>8,744,681</b>	5,655,156
Current liabilities	(2,570,149)	(1,240,650)
Non-current liabilities	(958,198)	(468,143)
<b>Total liabilities</b>	<b>(3,528,347)</b>	(1,708,793)
<b>Net assets</b>	<b>5,216,334</b>	3,946,363

Summarised statement of comprehensive income

	Year ended 31 December	
	2020	2019
Revenue	5,283,733	2,875,104
Profit from continuing operations	1,639,806	812,514
Other comprehensive income	(8,835)	(424)
<b>Total comprehensive income</b>	<b>1,630,971</b>	812,090
<b>Dividends received from associate</b>	<b>60,197</b>	43,355

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 20 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

#### (i) Summarised financial information for significant associate – Fullgoal Fund Management Co., Ltd. (Continued)

##### Reconciliation of summarised financial information

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

##### Summarised financial statements

	31 December	
	2020	2019
<b>Net assets at the beginning of the year</b>	<b>3,946,363</b>	3,394,273
Profit for the year	<b>1,639,806</b>	812,514
Dividend distribution	<b>(361,000)</b>	(260,000)
Other comprehensive income	<b>(8,835)</b>	(424)
<b>Net assets at the end of the year</b>	<b>5,216,334</b>	3,946,363
Percentage of the Group's interests in the associate	<b>16.68%</b>	16.68%
<b>Carrying amount of the Group's interest in the associate</b>	<b>869,824</b>	658,056

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 20 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

#### (ii) Reconciliation of summarised financial information of insignificant associates, measured at equity accounting

	31 December	
	2020	2019
<b>Carrying amount at the beginning of the year</b>	<b>1,365,481</b>	1,379,091
Acquisition during the year	<b>89,200</b>	52,250
Disposal during the year	<b>(70,600)</b>	(5,000)
Share of net profit/(loss) for the year	<b>95,436</b>	(11,782)
Other comprehensive income for the year	<b>(5,397)</b>	507
Impairment allowance	–	(2,333)
Cash dividend received	<b>(19,775)</b>	(30,000)
Others (a)	<b>54,882</b>	(17,252)
<b>Carrying amount at the end of the year</b>	<b>1,509,227</b>	1,365,481

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

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

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

	31 December	
	2020	2019
<b>Carrying amount at the beginning of the year</b>	<b>752,808</b>	163,694
Acquisition during the year	<b>175,955</b>	550,720
Disposal during the year	<b>(87,500)</b>	(30,000)
Fair value changes (Note 7)	<b>22,466</b>	68,394
<b>Carrying amount at the end of the year</b>	<b>863,729</b>	752,808

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 21 LOANS TO CUSTOMERS

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

	31 December	
	2020	2019
Corporate loans-at amortised cost	<b>14,232,249</b>	9,027,180
Including: issued by the Company	<b>993,950</b>	1,571,795
issued by consolidated structured entities	<b>13,238,299</b>	7,455,385
Interest receivable	<b>72,446</b>	53,398
Less: ECL allowance - Loans	<b>(1,555,395)</b>	(1,276,128)
ECL allowance - Interest receivable	<b>(1,726)</b>	(1,479)
Loans to customers, net	<b>12,747,574</b>	7,802,971
Presented as:		
Non-current assets	<b>9,641,926</b>	5,659,408
Current assets	<b>3,105,648</b>	2,143,563
Loans to customers, net	<b>12,747,574</b>	7,802,971



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 21 LOANS TO CUSTOMERS (CONTINUED)

### (b) Movement of corporate loans

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

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

- (i) The addition of Stage 3 corporate loans was a result of the Group's consolidation of a trust scheme in 2020. For detailed information, please refer to Note 37(b).
- (ii) In December 2020, the Group disposed of certain impaired loans with the principal amount of RMB757,948 thousand, for which 100% ECL allowance had been provided, to Shandong AMC at a total consideration of zero (Note 39(e)(i)). The Group de-recognised these loans upon disposal. The disposal did not result in any gain or loss in 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 21 LOANS TO CUSTOMERS (CONTINUED)

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 22 FINANCIAL INVESTMENTS-AMORTISED COST

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

	31 December	
	2020	2019
Financial investments-amortised cost, gross	65,897	93,297
Interest receivable	–	1,777
Less: ECL allowance – Financial investments-amortised cost	(15,609)	(15,656)
ECL allowance – Interest receivable	–	(49)
<b>Financial investments-amortised cost, net</b>	<b>50,288</b>	79,369
Presented as:		
Non-current assets	50,288	18,541
Current assets	–	60,828
<b>Financial investments-amortised cost, net</b>	<b>50,288</b>	79,369

### (b) Movement of principals

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2020</b>	79,000	–	14,297	93,297
Additions	51,600	1,000,000	–	1,051,600
Repayments	(79,000)	(1,000,000)	–	(1,079,000)
<b>Balance as at 31 December 2020</b>	<b>51,600</b>	<b>–</b>	<b>14,297</b>	<b>65,897</b>
	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 1 January 2019</b>	111,600	–	19,714	131,314
Additions	27,600	–	–	27,600
Repayments	(60,200)	–	(5,417)	(65,617)
<b>Balance as at 31 December 2019</b>	<b>79,000</b>	<b>–</b>	<b>14,297</b>	<b>93,297</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 22 FINANCIAL INVESTMENTS-AMORTISED COST (CONTINUED)

### (c) Movements of ECL allowance

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

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<b>Balance as at 1 January 2019</b>	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
<b>Balance as at 31 December 2019</b>	<b>1,359</b>	–	<b>14,297</b>	<b>15,656</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 23 ADVANCE PAYMENTS

	31 December	
	2020	2019
Prepayment for intangible assets	17,266	19,222
Prepayment for construction projects	–	247
Others	2,831	5,857
<b>Total</b>	<b>20,097</b>	<b>25,326</b>

## 24 DEFERRED INCOME TAXES

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 24 DEFERRED INCOME TAXES (CONTINUED)

	At 1 January 2019	Charged to profit or loss	At 31 December 2019
Deferred income tax assets:			
Impairment allowances for assets	100,092	171,674	271,766
Staff salary and welfare payable	20,359	7,356	27,715
Others	630	(630)	–
<b>Sub-total</b>	<b>121,081</b>	<b>178,400</b>	<b>299,481</b>
Deferred income tax liabilities:			
Fair value changes of financial assets at fair value through profit or loss	3,994	(56,745)	(52,751)
Others	(26,819)	10,199	(16,620)
<b>Sub-total</b>	<b>(22,825)</b>	<b>(46,546)</b>	<b>(69,371)</b>
<b>Net deferred income tax assets</b>	<b>98,256</b>	<b>131,854</b>	<b>230,110</b>

## 25 OTHER NON-CURRENT ASSETS

	31 December	
	2020	2019
Investment in artwork, net	<b>9,402</b>	9,982
Investment in artwork, gross	<b>46,740</b>	46,806
Less: Impairment allowance	<b>(37,338)</b>	(36,824)
Contribution to Trust Industry Protection Fund on behalf of trust schemes (i)	<b>179,530</b>	349,521
<b>Total</b>	<b>188,932</b>	359,503

(i) The amount represents the subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 27.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 26 CASH AND BANK BALANCE

### (a) Cash and bank balance

	31 December	
	2020	2019
Cash in hand	–	15
Cash at banks	<b>317,728</b>	964,409
Other monetary assets	<b>651,807</b>	–
Total	<b>969,535</b>	964,424

Other monetary assets represent cash deposited in securities company.

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

	31 December	
	2020	2019
Cash in hand	–	15
Cash at banks	<b>317,728</b>	964,409
Other monetary assets	<b>651,807</b>	–
Total	<b>969,535</b>	964,424

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

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

	31 December	
	2020	2019
Equity investments		
Listed shares	90,395	47,007
Unlisted entities	289,680	374,347
Asset management products (i)	107,077	178,455
Mutual funds	618,447	564,448
Bonds	886,168	–
Investments in trust schemes	129,436	264,500
Investments in Trust Industry Protection Fund (ii)	115,253	95,668
<b>Total</b>	<b>2,236,456</b>	1,524,425
Presented as:		
Non-current assets	679,519	912,970
Current assets	1,556,937	611,455
<b>Financial assets at fair value through profit or loss, net</b>	<b>2,236,456</b>	1,524,425

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 28 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December	
	2020	2019
Government bonds	107,147	11,026
	107,147	11,026

## 29 OTHER CURRENT ASSETS

	31 December	
	2020	2019
Contribution to Trust Industry Protection Fund on behalf of trust schemes (i)	109,887	190,539
Prepaid income tax	53,280	–
Receivable from the court (Note 38(b))	69,377	–
Others, net	125,208	111,977
Others, gross	144,378	183,196
Less: ECL allowance	(19,170)	(71,219)
<b>Total</b>	<b>357,752</b>	<b>302,516</b>

(i) The amount represents the subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 27.

## 30 SHARE CAPITAL AND CAPITAL RESERVE

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

	31 December	
	2020	2019
Number of shares authorised and issued	4,658,850	4,658,850
Share capital	4,658,850	4,658,850

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 30 SHARE CAPITAL AND CAPITAL RESERVE (CONTINUED)

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

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

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

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

As of 31 December 2020, the Group's capital reserve is shown as follows:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 31 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Statutory surplus reserve (i)	Statutory general reserve (ii)
Balance at 1 January 2020	845,282	834,036
Appropriation	58,659	58,659
Balance at 31 December 2020	903,941	892,695
Balance at 1 January 2019	767,319	756,073
Appropriation	77,963	77,963
Balance at 31 December 2019	845,282	834,036

### (i) Statutory surplus reserve

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

### (ii) Statutory general reserve

#### *General risk reserve*

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

#### *Trust compensation reserve*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 32 OTHER RESERVES

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

	Pre-tax amount	Tax charge	Net of tax
Balance at 1 January 2019	(1,301)	–	(1,301)
Share of other comprehensive income of investments accounted for using the equity method	436	–	436
Balance at 31 December 2019	(865)	–	(865)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 33 DIVIDENDS

	Year ended 31 December	
	2020	2019
Dividend declared during the year	<b>256,237</b>	377,367

According to the profit distribution plan approved by the Company's 2019 Annual General Meeting on 17 June 2020, cash dividends of RMB 256,237 thousand (RMB 0.055 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.

In accordance with a resolution of the board meeting on 31 March 2021, the Board of Directors proposed to appropriate the Company's net profit for the year ended 31 December 2020 to the statutory surplus reserve in the amount of RMB 58,659 thousand, appropriations RMB 58,659 thousand to the statutory general reserve.

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

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

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

## 34 NET ASSETS ATTRIBUTABLE TO OTHER BENEFICIARIES OF CONSOLIDATED STRUCTURED ENTITIES

Net assets attributable to other beneficiaries of consolidated structured entities represent other beneficiaries' share of net assets of the Company's consolidated structured entities. For detail information of consolidated structured entities, please refer to Note 37 (b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 35 SHORT-TERM BORROWINGS

	31 December	
	2020	2019
Borrowings from China Trust Protection Fund Co., Ltd.	100,000	320,000

## 36 OTHER CURRENT LIABILITIES

	31 December	
	2020	2019
Payable to National Council for Social Security Fund (i)	227,452	227,452
Pre-distribution from investments in associates	280,950	–
Placement from borrowers (ii)	196,042	296,099
VAT and surtax payable for trust schemes (iii)	77,125	104,429
Other tax payable	32,869	26,522
Deferred trustee's remuneration fee income	13,918	47,074
Others	9,825	32,915
<b>Total</b>	<b>838,181</b>	<b>734,491</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 37 STRUCTURED ENTITIES

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

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

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

As at 31 December 2020, the volume of unconsolidated trust schemes established and managed by the Group amounted to RMB 231,770 million (31 December 2019: RMB 248,452 million). The Group's maximum exposure to these unconsolidated structured entities in which the trustee's remuneration receivables amounted to RMB 165,875 thousand at 31 December 2020 (31 December 2019: RMB 214,056 thousand). The Group invests in some of these structured entities, which are recognised as financial assets at fair value through profit or loss or debt instrument investments at amortised cost.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 37 STRUCTURED ENTITIES (CONTINUED)

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

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

	Carrying value	Maximum exposure to loss	Total volume of structured entities
At 31 December 2020			
<b>Unconsolidated structured entities managed and invested by the Group</b>			
– Financial assets at fair value through profit or loss	129,436	129,436	2,418,972
– Financial investments-amortised cost	50,288	50,288	497,300
<b>Unconsolidated structured entities managed by the third parties</b>			
– Mutual funds	618,447	618,447	Note 1
– Asset management products	107,077	107,077	Note 1
– Investment in Trust Industry Protection Fund	115,253	115,253	Note 1
At 31 December 2019			
<b>Unconsolidated structured entities managed and invested by the Group</b>			
– Financial assets at fair value through profit or loss	625,102	625,102	4,312,176
– Financial investments-amortised cost	79,369	79,369	423,733
<b>Unconsolidated structured entities managed by the third parties</b>			
– Mutual funds	564,448	564,448	Note 1
– Asset management products	178,455	178,455	Note 1
– Investment in Trust Industry Protection Fund	95,668	95,668	Note 1

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 37 STRUCTURED ENTITIES (CONTINUED)

### (b) Consolidated structured entities

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

At 31 December 2020, the number of consolidated trust schemes established and managed by the Company were 50 (31 December 2019: 58) and the total volume of consolidated trust schemes amounted to RMB 16,918 million (31 December 2019: RMB 9,212 million).

For trust schemes that may not be able to realise payments from underlying investments in accordance with the due date set out in the original contract (the "Distressed trusts"), the Group ordinarily has the discretion to provide liquidity or other support, after evaluating various factors including the potential reputational implications to the Group, relationships with investors, as well as the likelihood of ultimately recovering payments from the underlying assets of the trust schemes. As soon a Distressed trust meets the criteria of a consolidated structured entity, it will be consolidated by the Group. As at 31 December 2020, total assets of such Distressed trusts amounted to RMB 7,624 million (31 December 2019: RMB 1,152 million), and impairment allowances of RMB 1,304 million have been made (31 December 2019: RMB 753 million).

Included in the consolidated structure entities, there is a newly consolidated trust scheme (the "Trust Scheme") with current liabilities amounting to RMB 5,208 million due to the beneficiaries (the "New Beneficiaries") of the Trust Scheme that fall due in May and June 2021. The underlying assets of the Trust Scheme are loans to customers as non-current assets with a principal amount of RMB 7,000 million and a net carrying value of RMB 5,974 million after allowance for expected credit loss as at 31 December 2020. As at 1 January 2020, the Group had established a trust scheme with investments from beneficiaries (the "Original Beneficiaries") of RMB 7,000 million and underlying assets (the "Real Estate Loans") made to project development subsidiaries of a group (the "Real Estate Development Group") of RMB 7,000 million. The Real Estate Loans are secured by land use rights and properties under construction associated with the projects, the share capital of the aforesaid project development subsidiaries as well as guarantees from the ultimate beneficiary owners of and other companies within the Real Estate Development Group. As a result of delays in the development of the projects, attributed to the COVID-19 pandemic and other factors, the Real Estate Development Group defaulted on the repayment of the principal and interest accrued on the Real Estate Loans that were due in May and June 2020 and remained overdue as at 31 December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)*

## **37 STRUCTURED ENTITIES (CONTINUED)**

### **(b) Consolidated structured entities (Continued)**

In order to repay the Original Beneficiaries in respect of the above loans, the Trust Scheme was established in May 2020 with investments from the New Beneficiaries of RMB5,000 million together with two investments from the Group of RMB 1,000 million each in different stages and totally amounting to RMB 2,000 million. In the event that the Real Estate Development Group continues to be unable to repay these Real Estate Loans in May and June 2021, the Group will need to provide financial support in order to repay the amounts due to the New Beneficiaries. After considering the exposure to variability of returns from the Trust Scheme, the Group consolidated the Trust Scheme in 2020.

Based on the expected discounted cash flows mainly based on the realisation of the value of land use rights, after taking into account multiple forward looking scenarios regarding the valuation and realisation period of such land use rights, the Group has provided for a credit loss allowance amounting to RMB 1,026 million for the Real Estate Loans in the Trust Scheme.

The Group's credit loss allowance is supported by a multiple scenario model with realisation periods of 1.5 years, 2 years and 2.5 years with a probability weighting of 10%, 80% and 10%, respectively. As significant judgements are involved in estimating such realisation periods, a sensitivity analysis has also been performed on these assumptions. If the realisation period is extended by 0.5 year in each of the scenarios considered, the credit loss allowance will increase by RMB 236 million. If the realisation period is shortened by 0.5 year in each of the scenarios, the credit loss allowance will decrease by RMB 246 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 38 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitment

	31 December	
	2020	2019
Contracted but not yet incurred	11,814	10,025

These capital commitments mainly relate to purchase of intangible assets.

### (b) Legal proceedings

The Group believes the possibility of the loss of legal proceedings that remained outstanding as at 31 December 2020, which the Group was an interested party, was low. Therefore, no provision was required.

In 2020, the Company was sued by Qixing Group Co., Ltd. ("Qixing Group") and Shandong Qixing Real Estate Company ("Shandong Qixing"). According to the first and second instance judgments by Zouping People's Court ("Zouping Court") and Binzhou Intermediate People's Court ("Binzhou Intermediate Court"), the Company should pay Shandong Qixing and Qixing Group with an amount totalling RMB167.82 million and related interest. The Company filed a lawsuit with Shandong Province Higher People's Court ("Shandong Higher Court") on 28 October 2020, requested to revoke the above judgments of Zouping Court and Binzhou Intermediate Court, to amend the judgment in accordance with the law, and to dismiss all claims of Qixing Group and Shandong Qixing or sent back for retrial. Shandong Higher Court ruled on 18 December 2020 and 11 January, 2021, that the evidence found by Zouping Court and Binzhou Intermediate Court was insufficient and their applied law was incorrect. The above-mentioned cases are now arraigned by the Shandong Higher Court. The execution of the original judgments is suspended during the retrial.

As at 31 December 2020, Zouping court has deducted RMB 69.38 million from the Company's bank account.

Based on the above facts and relevant legal provisions, the Company believes that the claims of Shandong Qixing and Qixing group have no facts and legal basis and should be rejected in accordance with the law. Therefore, the Company has not accrued the estimated liabilities for the case. For the above transferred funds by Zouping court, the Company accounts as other receivables.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 39 RELATED PARTY TRANSACTIONS

The Company is controlled by Lucion Group, which aggregately owns 52.96% of the shares of the Company at 31 December 2020. Lucion Group is further controlled by Shandong Provincial Department of Finance. CNPC Assets Management Co., Ltd. (“CNPC AMC”), holds 18.75% of the Company’s shares and has significant influence over the Company.

The Company’s directors were of the view that Lucion Group, CNPC AMC and their subsidiaries were considered as related parties of the Group. Certain trust schemes were also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 39(d) below. The Group’s transaction with related parties are conducted under the ordinary course of business.

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

During the the year ended 31 December 2020 and 2019, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent (“Lucion Group”).

	31 December	
	2020	2019
Number of trust schemes controlled by the Group (Note 37(b))	50	58
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	18	17

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

	31 December	
	2020	2019
Total entrusted assets of trust schemes controlled by Lucion Group	8,861,650	3,381,701

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

	Year ended 31 December	
	2020	2019
Fee and commission income	47,191	25,367

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

During the year ended 31 December 2020 and 2019, Lucion Group and its subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group.

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

Related parties' interests in these consolidated trust schemes are reported as other liabilities in the Group's consolidated statements of financial position (Note 34)

	31 December	
	2020	2019
Number of trust schemes where the related parties act as trustors	7	7
Interests of related parties in these consolidated trust schemes	(917)	92,217

Investment return have been accounted for as interest expense or net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value in the Group's consolidated statements of comprehensive income:

	Year ended 31 December	
	2020	2019
Interest expense	186	814
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	2,570	9,381

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	31 December	
	2020	2019
Number of unconsolidated trust schemes where related parties acts as trustors	45	20
Assets entrusted by related parties	5,829,933	2,966,662
Total entrusted assets of these unconsolidated trust schemes	10,437,566	4,181,270

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

	Year ended 31 December	
	2020	2019
Fee and commission income	68,205	31,250

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

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

	31 December	
	2020	2019
Number of unconsolidated trust schemes which provide financing to related parties	5	10
Amount financed	813,800	2,197,153
Total entrusted assets of these unconsolidated trust schemes	813,800	2,197,153

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

	Years ended 31 December	
	2020	2019
Fee and commission income	5,041	28,010

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

	31 December	
	2020	2019
Number of consolidated trust schemes which provide financing to related parties	5	4
Amount financed	784,445	486,095
Total entrusted assets of these consolidated trust schemes	784,445	486,095

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

	Years ended 31 December	
	2020	2019
Interest income	61,798	2,675

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

#### (i) Key management compensation

The compensation paid to key management personnel is shown below:

	Year ended 31 December	
	2020	2019
Salaries and allowances	4,349	5,673
Discretionary bonuses	14,522	14,411
Pension	731	989
Other social security obligations	462	612
	<b>20,064</b>	21,685

The compensation payable to key management personnel is shown below:

	31 December	
	2020	2019
Discretionary bonuses payable	14,522	14,411

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	31 December	
	2020	2019
Key management's personal investments in trust schemes	23,969	47,300
Total entrusted assets of these trust schemes	188,672	1,544,300

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

	Year ended 31 December	
	2020	2019
Fee and commission income	940	16,650

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

### (e) Other related parties' transactions

#### *Significant transactions with related parties*

During the the year ended 31 December 2020, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2020	2019
Loans sold to Shandong AMC by the Group (Note 21(b))	–	–
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	4,243	1,631
Advertising costs paid to Shandong Lu Xin Film Co., Ltd.	–	63
Merchandise expenses paid to Shandong Lu Xin Film Co., Ltd.	50	–
Purchase of equipment from Luxin Hengsheng Property Management Co., Ltd.	–	39
System maintenance expenses paid to Luxin Technology Co., Ltd.	7,481	7,481
Purchase of equipment and software from Luxin Technology Co., Ltd.	152	2,457
Rental costs paid to Anhui Lu Xin Investment Co., Ltd.	122	123
Rental income from Shandong Luxin Hengsheng Property Management Co., Ltd.	–	108
Tender fee paid to Luxin International Tendering Co., Ltd.	–	4
Consultant fee paid to Shandong Taishan Cultural Art Exchange Co., Ltd.	–	350
Welfare fee paid to Jinan Luxin Asset Management Co., Ltd.	530	–

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 40 SEGMENT ANALYSIS

### (a) Operating segments

	Year ended 31 December 2020			
	Proprietary business	Trust business	Unallocated	Total
Fee and commission income	–	1,152,419	–	1,152,419
Interest income	713,955	2,659	–	716,614
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	126,561	–	–	126,561
Investment income	146,181	–	–	146,181
Net gains on disposal of associate	109,920	–	–	109,920
Other operating income	53,935	–	–	53,935
<b>Total operating income</b>	<b>1,150,552</b>	<b>1,155,078</b>	<b>–</b>	<b>2,305,630</b>
Interest expenses	(620,516)	–	–	(620,516)
Staff costs (including directors and supervisors' emoluments)	(3,634)	(135,620)	–	(139,254)
Depreciation and amortisation	(906)	(12,682)	–	(13,588)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(16,575)	–	–	(16,575)
Tax and surcharges	(1,449)	(9,868)	–	(11,317)
Administrative expenses	(21,682)	(57,316)	–	(78,998)
Auditor's remuneration	(1,972)	–	–	(1,972)
Impairment losses on financial assets	(1,058,799)	–	–	(1,058,799)
Impairment losses on other assets	(514)	–	–	(514)
<b>Total operating expenses</b>	<b>(1,726,047)</b>	<b>(215,486)</b>	<b>–</b>	<b>(1,941,533)</b>
<b>Share of profit from investments accounted for using the equity method</b>	<b>368,874</b>	<b>–</b>	<b>–</b>	<b>368,874</b>
<b>Profit before income tax</b>	<b>(206,621)</b>	<b>939,592</b>	<b>–</b>	<b>732,971</b>
	31 December 2020			
	Proprietary business	Trust business	Unallocated	Total
<b>Segment assets</b>	<b>19,357,514</b>	<b>1,147,497</b>	<b>178,810</b>	<b>20,683,821</b>
<b>Segment liabilities</b>	<b>10,319,814</b>	<b>183,441</b>	<b>5,442</b>	<b>10,508,697</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 41 SUBSEQUENT EVENTS

In February and March 2021, the Group acquired from another trust scheme it managed the rights to certain defaulted loans to the same Real Estate Development Group as referred to in Note 37(b) at face value of RMB2,000 million with interest at 11.04% per annum. The acquisition was partially financed by interest bearing borrowings from China Trust Protection Fund Co., Ltd. amounting to RMB 1,600 million that fall due in February and March 2022. These borrowings are guaranteed by Lucion Group, of which RMB 600 million is also collateralised by the Group's investments in certain trust schemes.

## 42 FINANCIAL RISK MANAGEMENT

### Overview

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk

#### 42.1.1 Credit risk measurement

Credit risk refers to the risk that the clients or counterparties fail to fulfil contractual obligations. The Group's credit risk mainly arises from its trust business and proprietary business.

The credit risk of the Group's trust business mainly refers to the risk that the Group, as the trustee, fails to receive its due remuneration which is agreed in the trust contract with the trustors. Pursuant to the terms of trust contract, as long as the Group fulfil its duties stated in trust contract in its capacity as trustee, it is entitled to receive the remuneration specified in the trust contract. The Group has the priority over the trust beneficiaries to receive a fixed remuneration from the trust scheme's assets, which is the major source of the Company's income from the trust business. The Group's trustee remuneration receivables are included in the "trustee's remuneration receivable" in the consolidated balance sheet.

Some of the Group's trust schemes are financing trust schemes. Under such schemes, the failure of fulfilling the repayment obligations by the ultimate borrowers will negatively affect the Group's entitlement to receive its fixed and floating remuneration as stated in the trust contract. The Group assesses and manages the borrower's default risk of its financing trust scheme through initial due diligence, approval, and monitoring over the borrowers pursuant to the trust contract. The measures taken by the Group to mitigate the default risk by borrower include mainly obtaining third party guarantee and collateral as credit enhancements. In many cases where such default by borrower arises, the Group is also required by trust contract to act on the best interests of the beneficiaries by taking necessary resolution and disposition measures to minimise the loss of trust assets. However, the Group does not guarantee fixed return or compensate any investment loss to the beneficiaries of the trust, and the PRC laws and regulations also prohibit the Group from doing so. The Group has no contractual obligation to provide liquidity or other support to any trust that may not be able to collect all payments from the counterparty according to its contract before the trust expiration date (the "troubled trusts"). The Group has its discretion to use its own funds to provide liquidity or other support, after evaluating the likelihood of ultimate repayments from borrowers or other sources and considering other factors such as potential reputational damage to the Company. As a result of liquidity support provided by the Group, the financing trust schemes are consolidated and the underlying loans of the financing trust schemes are consolidated in the "Loans to customers" in the Group's consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.1 Credit risk measurement (Continued)

The Group's proprietary business mainly includes the Group's own debt and equity investments. The management formulates its annual investment plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board of Directors. According to such plan, the Group invests in certain trust schemes established and managed by itself, listed or unlisted equity securities, mutual funds, loans and other asset management plans. For investments in its own trust schemes, the Group assesses the significance of its variable returns from its involvement in these plans and determined whether these trust schemes need to be consolidated or not. The underlying assets of consolidated trust schemes are reported in the same balance sheet line items as the Company's own assets.

The estimation of credit exposure for risk management purposes requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures Expected Credit Loss (ECL) under IFRS 9 using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). Refer to note 42.1.2 for more details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Please refer to note 42.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 42.1.2.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 42.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 42.1.2.4 includes an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The impairment requirement under IFRS 9 (other than purchased or originated credit-impaired assets):

- Stage 1 (initial recognition): 12-month expected credit losses;
- Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses;
- Stage 3 (credit-impaired assets): lifetime expected credit losses.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

##### 42.1.2.1 Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The borrower is more than 30 days past due on its contractual payments.

Qualitative criteria:

If the borrower is on the watchlist and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

##### 42.1.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

##### Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

##### Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is deceased
- The borrower has severe financial difficulties or insolvency
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

##### 42.1.2.2 Definition of default and credit-impaired assets (Continued)

###### Qualitative criteria (Continued)

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

##### 42.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

##### 42.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile.

The lifetime LGDs are determined based on the factors which impact the recoveries made post default and historic experiences.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. Refer to Note 42.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

##### 42.1.2.4 Forward-looking information incorporated in the ECL models

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

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

The Group provides three possible scenarios along with scenario weightings to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2020 and 31 December 2019, for all portfolios, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

#### Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2020 and 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios. The weightings assigned to each economic scenario at 31 December 2020 were 50%, 20%, 30% respectively (31 December 2019: same).

Item	Range (during 2021)	Range (during 2020)
Business climate index	105.74~135.35	109.26~135.51
Real estate climate index	94.20~104.53	92.97~104.69

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.2 Expected credit loss measurement (Continued)

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

#### Sensitivity analysis

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

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

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

	31 December 2020	31 December 2019
ECL weighted exposure	<b>1,571,004</b>	1,291,784
Base scenario	<b>1,531,499</b>	1,244,588
Upside scenario	<b>1,711,008</b>	1,143,787
Downside scenario	<b>1,460,947</b>	1,499,188

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.3 Credit risk exposure

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.3 Credit risk exposure (Continued)

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

	31 December 2019		
	Gross carrying amount	Loss allowance	Carrying amount
Cash and bank balance (Stage 1)	964,424	–	964,424
Financial assets purchased under resale agreements (Stage 1)	11,026	–	11,026
Loans to customers (including interest receivable)	9,080,578	(1,277,607)	7,802,971
Stage 1	7,517,092	(194,070)	7,323,022
Stage 2	–	–	–
Stage 3	1,563,486	(1,083,537)	479,949
Financial investments-amortised cost (including interest receivable)	95,074	(15,705)	79,369
Stage 1	80,777	(1,408)	79,369
Stage 2	–	–	–
Stage 3	14,297	(14,297)	–
Other financial assets-amortised cost	904,988	(87,793)	817,195
Stage 1	823,387	(7,401)	815,986
Stage 2	–	–	–
Stage 3	81,601	(80,392)	1,209
<b>Total</b>	<b>11,056,090</b>	<b>(1,381,105)</b>	<b>9,674,985</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 Credit risk (Continued)

#### 42.1.3 Credit risk exposure (Continued)

##### 42.1.3.2 Loans to customers that are impaired

The gross amount, ECL and fair value of collateral held are as follows:

	31 December	
	2020	2019
Corporate loans to customers	8,657,299	1,563,486
Less: ECL	(1,422,639)	(1,083,537)
<b>Net</b>	<b>7,234,660</b>	479,949
Fair value of collateral		
Corporate loans to customers	7,282,401	742,474

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions.

### 42.2 Market risk

#### 42.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from price risk and interest rates risk.

#### 42.2.2 Price risk

Certain financial assets such as financial assets at FVPL and investment in associates are measured at fair values at the end of each reporting periods. The Group is exposed to price risks that may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may result from by the factors relating to the financial instruments itself or the issuer, and it may also result from by market factors.

The Group's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of financial assets at fair value through profit or loss and investment in associates measured at fair value on the Group's net profit and equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.2 Market risk (Continued)

#### 42.2.2 Price risk (Continued)

Net profit

	Year ended 31 December	
	2020	2019
+1 percent	23,251	17,079
-1 percent	(23,251)	(17,079)

Equity

	31 December	
	2020	2019
+1 percent	23,251	17,079
-1 percent	(23,251)	(17,079)

#### 42.2.3 Interest rate risk

Interest rate risk refers to the possibility that the Group's financial position and cash flow fluctuates due to changes in market interest rate. The changes in market interest rate may lead to increase or decrease in interest income of the Group, which will impact the amount of total profit and shareholders' equity. The Group's interest rate risk management is mainly focused on cash flow interest rate risk management.

As at 31 December 2020, the main interest-bearing assets held by the Group include cash and cash equivalents, loan to customers and financial assets held under reverse repurchase agreements which accounts 66.84% of total assets of the Group (31 December 2019: 60.24%). The majority financial assets mentioned above are fixed rate assets.

As at 31 December 2020, the Company's main interest bearing liability includes short-term borrowings from China Trust Protection Fund Co., Ltd. of RMB100 million, which amounted to 0.95% of total liabilities of the Group (31 December 2019: RMB320 million, which amounted to 6.71% of total liabilities of the Group).

The Group also invests in certain financing trust schemes established and managed by itself. The underlying assets of these financing trust schemes are mainly loans to customers which are priced at fixed rate through their maturities. The investors of these trust schemes including the Company are entitled to an investment return at an expected but not guaranteed fixed rate throughout the whole investment period. The Group is not subject to significant risk from the volatility of market interest rate or changes in benchmark interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.2 Market risk (Continued)

#### 42.2.4 Foreign exchange risk

The Group's business is mainly operated in the PRC and settled in RMB. As at 31 December 2020, all proceeds from issuance of H shares were settled to the Company's domestic accounts, which was not expected to have a material impact on foreign exchange risk of the Group.

### 42.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group forecasts its cash flows and monitors the short-term and long-term capital need to ensure it has sufficient cash reserve and securities that are readily convertible to cash. The Group holds sufficient unrestricted cash at bank to satisfy the capital need for the daily operations. As at 31 December 2020, the Group has a short-term borrowing from China Trust Protection Fund Co., Ltd. amounting to RMB100 million as disclosed in Note 35 (31 December 2019: RMB320 million).

The majority of the Group's financial liabilities on the consolidated statement of financial position are amount attributable to other beneficiaries of the trusts as a result of consolidating these trusts by the Group. Management is of the view that the Group is not subject to significant liquidity risk given the financial support provided by Lucion Group. (Note 2.1(b))

### 42.4 Capital management

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

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

The Company monitors the net capital and risk-based capital regularly based on regulations issued by the CBRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBIRC on a quarterly basis. Total risk-based capital is defined as the sum of (i) risk-based capital of our proprietary business; (ii) risk-based capital of our trust business, and (iii) risk-based capital of our other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for proprietary business, and 0.1% to 9.0% for trust business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.5 Fair values of financial assets and liabilities

#### (a) Fair value hierarchy

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

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

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

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balance, financial assets purchased under resale agreements, loans to customers, financial investments-amortised cost, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 31 December 2020, and 2019, their fair value approximate carrying amounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

	Level 1	Level 2	Level 3	Total
<b>31 December 2019</b>				
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments				
– Listed shares	47,007	–	–	47,007
– Unlisted shares	–	–	374,347	374,347
– Asset management products	–	–	178,455	178,455
– Mutual funds	564,448	–	–	564,448
– Investment in trust schemes	–	–	264,500	264,500
– Investment in Trust Industry Protection Fund	–	–	95,668	95,668
	611,455	–	912,970	1,524,425
<b>Investments in associates</b>	–	–	752,808	752,808
<b>Total</b>	611,455	–	1,665,778	2,277,233

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

During the the year ended 31 December 2020 and 2019, the Group did not reclassify the financial instruments among different levels.

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

(iii) *Financial instruments in Level 3*

	Financial assets at fair value through profit or loss	Investments in associates	Total
1 January 2020	912,970	752,808	1,665,778
Acquisitions	97,787	175,955	273,742
Disposals	(428,044)	(142,538)	(570,582)
Gains recognised in profit or loss	58,733	77,504	136,237
31 December 2020	641,446	863,729	1,505,175
Unrealised gains recognised in profit or loss attributable to balances held at the end of the year	9,235	22,466	31,700

	Financial assets at fair value through profit or loss	Investments in associates	Total
1 January 2019	1,129,884	163,694	1,293,578
Acquisitions	158,609	550,720	709,329
Disposals	(496,582)	(33,033)	(529,615)
Gains recognised in profit or loss	121,059	71,427	192,486
31 December 2019	912,970	752,808	1,665,778
Unrealised gains recognised in profit or loss attributable to balances held at the end of the year	111,583	68,394	179,977



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 42 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

The following table summarises the quantitative inputs and assumptions used for financial instruments in level 3. The disclosure below excludes financial instruments for which fair value is based on unobservable inputs not developed by the Group.

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

Description	Fair value at 31 December 2019	Valuation technique(s)	Unobservable input	Range
<b>Financial assets at fair value through profit or loss</b>				
– Equity investments	10,094	Market comparable company model	P/E multiple (ii)	11.4
	168,410	Market comparable company model	P/B multiple (ii)	1.46
			Discount for lack of marketability (i)	20%~26%
	234,048	Discounted cash flow	Discount rate	9%~16%
<b>Investments in associates</b>				
– Investments in associates	752,808	Discounted cash flow	Discount rate	18%~34%

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

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

As at 31 December 2020, the remaining investments categorised in Level 3 with fair value of RMB430,888 thousand (31 December 2019: 500,418 thousand) were valued based on unobservable inputs such as net assets value of investment product.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 43 FINANCIAL STATEMENT OF THE COMPANY

### (a) Statement of Financial Position of the Company

	31 December	
	2020	2019
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	122,135	126,522
Right-of-use assets	680	1,043
Intangible assets	13,672	5,829
Investments in associates	1,642,703	1,309,906
Investments in consolidated structured entities	5,132,481	5,098,350
Financial assets at fair value through profit or loss	597,193	749,720
Loans to customers	–	1,281,682
Financial investments-amortised cost	–	976
Advance payments	20,097	20,727
Deferred income tax assets	345,721	246,731
Other non-current assets	179,530	349,521
<b>Total non-current assets</b>	<b>8,054,212</b>	<b>9,191,007</b>
<b>Current assets</b>		
Cash and bank balance	698,849	866,919
Financial assets at fair value through profit or loss	708,843	602,886
Financial assets purchased under resale agreements	31,450	9,000
Loans to customers	993,950	13,589
Financial investments-amortised cost	–	51
Trustee's remuneration receivable	189,033	247,375
Other current assets	298,194	269,779
<b>Total current assets</b>	<b>2,920,319</b>	<b>2,009,599</b>
<b>Total assets</b>	<b>10,974,531</b>	<b>11,200,606</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020  
(All amounts expressed in thousands of RMB unless otherwise stated)

## 43 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

### (a) Statement of Financial Position of the Company (Continued)

	31 December	
	2020	2019
<b>Equity and liabilities</b>		
Share capital	4,658,850	4,658,850
Capital reserve	143,285	143,285
Statutory surplus reserve	903,941	845,282
Statutory general reserve	892,695	834,036
Other reserves	(7,735)	(865)
Retained earnings	3,494,201	3,281,165
<b>Total equity</b>	<b>10,085,237</b>	9,761,753
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Salary and welfare payable	24,157	48,899
Lease liabilities	122	346
<b>Total non-current liabilities</b>	<b>24,279</b>	49,245
<b>Current liabilities</b>		
Short-term borrowings	100,000	320,000
Lease liabilities	573	708
Salary and welfare payable	85,876	61,961
Income tax payable	–	186,281
Dividend Payable	–	4,374
Other current liabilities	678,566	816,284
<b>Total current liabilities</b>	<b>865,015</b>	1,389,608
<b>Total liabilities</b>	<b>889,294</b>	1,438,853
<b>Total equity and liabilities</b>	<b>10,974,531</b>	11,200,606

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 31 March, 2021 and signed on its behalf by :

Chairman and Executive Director

General manager and Executive Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

## 43 FINANCIAL STATEMENT OF THE COMPANY (CONTINUED)

### (b) Statement of Changes in Equity of the Company

	Share capital	Capital reserve	Statutory surplus reserve	Statutory general reserve	Other reserves	Retained earnings	Total
<b>Balance at 1 January 2020</b>	<b>4,658,850</b>	<b>143,285</b>	<b>845,282</b>	<b>834,036</b>	<b>(865)</b>	<b>3,281,165</b>	<b>9,761,753</b>
Net profit for the year	-	-	-	-	-	586,591	586,591
Other comprehensive income for the year	-	-	-	-	(6,870)	-	(6,870)
Total comprehensive income	-	-	-	-	(6,870)	586,674	579,721
Appropriation to statutory surplus reserve	-	-	58,659	-	-	(58,659)	-
Appropriation to statutory general reserve	-	-	-	58,659	-	(58,659)	-
Dividends paid (Note 33)	-	-	-	-	-	(256,237)	(256,237)
<b>Balance at 31 December 2020</b>	<b>4,658,850</b>	<b>143,285</b>	<b>903,941</b>	<b>892,695</b>	<b>(7,735)</b>	<b>3,494,201</b>	<b>10,085,237</b>
<b>Balance at 1 January 2019</b>	<b>2,588,250</b>	<b>2,223,139</b>	<b>767,319</b>	<b>756,073</b>	<b>(1,301)</b>	<b>3,034,829</b>	<b>9,368,309</b>
Net profit for the year	-	-	-	-	-	779,629	779,629
Other comprehensive income for the year	-	-	-	-	436	-	436
Total comprehensive income	-	-	-	-	436	779,629	780,065
Appropriation to statutory surplus reserve	-	-	77,963	-	-	(77,963)	-
Appropriation to statutory general reserve	-	-	-	77,963	-	(77,963)	-
Transfer capital reserve to share capital	2,070,600	(2,070,600)	-	-	-	-	-
Dividends paid (Note 33)	-	-	-	-	-	(377,367)	(377,367)
Others	-	(9,254)	-	-	-	-	(9,254)
<b>Balance at 31 December 2019</b>	<b>4,658,850</b>	<b>143,285</b>	<b>845,282</b>	<b>834,036</b>	<b>(865)</b>	<b>3,281,165</b>	<b>9,761,753</b>

# DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"Articles of Association"	Articles of Association of the Company (as amended from time to time)
"Audit Committee"	the audit committee under the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"Board of Supervisors"	the board of Supervisors of the Company
"Business Decision Committee"	the business decision committee under the Board
"CBRC" or "CBIRC"	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which was formed by CBIRC through the banking and insurance regulators in the PRC (i.e. the China Banking Regulatory Commission (" <b>CBRC</b> ") and the China Insurance Regulatory Commission) in April 2018 upon merger. Except where the context otherwise requires, it may refer to its predecessors, namely, the CBRC and/or the CIRC
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not include, Hong Kong, Macau and Taiwan
"CNPC Assets Management"	CNPC Assets Management Co., Ltd. (中油資產管理有限公司)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

# DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Group”	the Company and the trust schemes over which it has control
“H Share(s)”	overseas listed foreign share(s) in our ordinary share capital with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “Hong Kong dollars”	the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Human Resources and Nomination Committee”	the human resources and nomination committee under the Board

# DEFINITIONS

“Independent Shareholders”	Shareholders who are not required to abstain from voting at the general meeting
“IFRS”	International Financial Reporting Standards
“Kunlun Trust”	Kunlun Trust Co., Ltd.
“Listing Date”	the date when the Company’s H Shares are listed on the main board of the Hong Kong Stock Exchange (i.e. 8 December 2017)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lucion Group”	Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司)
“Macau”	the Macau Special Administrative Region of the PRC
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the People’s Republic of China (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time



# DEFINITIONS

“Prospectus”	the prospectus issued on 28 November 2017 in connection with the Hong Kong Public Offering
“Related Party Transaction Control Committee”	Related Party Transaction Control Committee of the Board
“Remuneration Committee”	the remuneration committee under the Board
“Reporting Period”	the period from 1 January 2020 to 31 December 2020
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented from time to time or otherwise revised
“Shandong Office of CBRC” or “Shandong Office of CBIRC”	the Shandong Office of CBRC (中國銀監會山東監管局) (currently known as Shandong Office of CBIRC)
“Shandong Trust”, “SITC”, “Company”, “we” or “us”	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), established in the PRC on 10 March 1987 and converted into a joint stock company with limited liability under the PRC Company Law on 30 July 2015, except where the context otherwise requires, the trust schemes over which it has control
“Shareholder(s)”	holder(s) of our shares
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules

# DEFINITIONS

“State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategies and Risk Management Committee”	the strategies and risk management committee under the Board
“Supervisor(s)”	supervisor(s) of the Company
“Trust Committee”	the trust committee under the Board
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“30%-controlled company”	has the meaning ascribed to it under the Listing Rules

# GLOSSARY OF TECHNICAL TERMS

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

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

# LUCION

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



Wechat Offical  
Account of SITC



SITC APP