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LUCION

Shandong International Trust Co., Ltd.

山東省國際信託股份有限公司

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

(Stock Code: 1697)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the “**Board**”) of Shandong International Trust Co., Ltd. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company for the year ended 31 December 2019 (the “**Reporting Period**”). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to preliminary announcements of annual results and the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, financial data of the Company are presented in Renminbi.

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

1. BASIC CORPORATE INFORMATION

1.1 Basic Information

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

1.2 Contact Person and Contact Details

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

2. SUMMARY OF FINANCIAL DATA

2.1 Summary of Consolidated Statement of Comprehensive Income

		Year ended 31 December	
	<i>Note</i>	2019	2018
		<i>(RMB in thousands)</i>	
Fee and commission income	2	1,037,771	891,301
Interest income	3	529,807	647,511
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	4	299,999	(32,274)
Investment income/(loss)	5	14,231	(25,231)
Net gains on disposal of associates held by consolidated structured entities	6	3,062	160,851
Other operating income		1,796	52,348
Total operating income		1,886,666	1,694,506
Total operating expenses		(1,132,536)	(699,856)
Share of profit of investments accounted for using the equity method		123,705	132,197
Operating profit before income tax		877,835	1,126,847
Income tax expense	11	(213,929)	(254,599)
Net profit attributable to shareholders of the Company		663,906	872,248

2.2 Summary of Consolidated Statement of Financial Position

	<i>Note</i>	As at 31 December	
		2019	2018
		<i>(RMB in thousands)</i>	
Total current assets		4,307,868	6,333,573
Total current liabilities		2,065,009	2,273,094
Total non-current assets		10,264,422	7,278,179
Total non-current liabilities		2,696,868	1,797,966
Total assets		14,572,290	13,611,752
Total liabilities		4,761,877	4,071,060
Total equity		9,810,413	9,540,692

2.3 Summary of Consolidated Statement of Cash Flows

	<i>Note</i>	Year ended 31 December	
		2019	2018
		<i>(RMB in thousands)</i>	
Net cash generated from operating activities		556,354	949,939
Net cash used in investing activities		(128,186)	(694,001)
Net cash used in financing activities		(533,005)	(382,093)
Effect of exchange rate changes on cash and cash equivalents		(11,993)	34,601
Net decrease in cash and cash equivalents		(116,830)	(91,554)
Cash and cash equivalents at beginning of the year		1,081,254	1,172,808
Cash and cash equivalents at end of the year	16	964,424	1,081,254

3 MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment Overview

Since 2019, growth in the global economy has slowed down, with a lack of growth momentum and the gradual decline of trade growth, owing to uncertainties such as trade friction and geopolitical factors, which accumulated global financial weakness, increased risk aversion in the financial market. Faced with the complex and stern internal and external environment, China continued to deepen the supply-side structural reform, increased its counter-cyclical adjustment efforts, and focused efforts on the “six stabilization campaign”, leading to an overall stable national economy, progressive implementation of structural adjustment, stable investment returns, generally stable consumption and employment, and apparent structural feature in commodity price inflation. However, under increasing difficulties and challenges, the domestic economy was subject to increased downward pressure.

The financial industry in China proactively implemented new development concepts in three areas, namely adhering to serving the real economy, prevention and control of financial risks and deepening financial reform. By way of focusing on the deepening of its supply-side structural reform, persisting in the implementation of reform and opening up, getting prepared to prevent and resolve major financial risks, and keeping “employment, finance, foreign trade, foreign capital, investment and expectation” stable, to further enhance the financial support to the adaptability and flexibility of the real economy, promote the reduction of social financing cost, and establish an appropriate financial environment for high-quality economic development.

In order to effectively meet rising demands of the general public for wealth management, the trust industry has strictly implemented the rectification requirements for the transitional period of the “New Asset Management Rules”, deepened structural transformation, persevered with the return to the foundations, enriched the supply of trusts, enhances compliance system establishment, continuously strengthened its risk resistance capabilities, and persisted in serving the real economy. As of the end of 2019, the trust assets balance under management by the trust industry in China amounted to RMB21.6 trillion, with a continual steady decrease in the scale of trust assets.

3.2 Business Overview

As a trust company regulated by the China Banking and Insurance Regulatory Commission (“**CBIRC**”) (formed by the integration of China Banking Regulatory Commission (“**CBRC**”) and China Insurance Regulatory Commission in April 2018), 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 2019, the Company continued to strengthen its active management capability, firmly revisit the fundamentals, adhere to the drive of transformation and innovation, strengthen the leadership of smart trust, promote the replacement of old growth drivers with new ones, strive to prevent and mitigate risks, and maintain an overall stable operation. Firstly, the Company continued to strengthen active management, which significantly improved business quality and efficiency. The Company is fully engaged in active management businesses with high returns, and the trust business structure and income structure were constantly being optimised. The quality and efficiency of the inherent fund operations of the Company have significantly improved, and the transformation and development of First-trust FMC have taken a key step. The Company persisted in revitalising Shandong Province by fundraising, increase financial supply in the province to effectively satisfying the financial service demands of major projects of new and old kinetic energy conversion. Secondly, the Company is strongly committed to driving development through innovation by accelerating the pace of development of smart trust. Smart trust is chosen to be the first batch of “Modern quality industrial clusters+ artificial intelligence” pilot demonstration program in Shandong Province. Phase one of smart trust system construction has been successfully implemented, and the data centre, statement system, wealth management, consumer finance and other systems have been successfully launched. The Company designed and developed cash-related management products, accounts receivable business-related systems, and customer relationship systems to achieve eight major functions such as online double recording and online signing. The Shandong Guoxin APP was officially launched to support mobile sales, and the operating efficiency of the Company continued to improve. Thirdly, the Company continued to promote transformation and innovation and accelerated the development of new growth drivers. The Company accelerated the development of innovative business with a focus on regulatory guidance and market hotspots. Cash management trust products were successfully launched. The first standardized ABS trust successfully launched with the scale of consumer trusts continued to expand, and bond trusts continued to grow. The family trust has formed a “customised + standardised”

development model. The property management of charitable trust and the charity fund went hand in hand, and the fundamental business continued to maintain its leading position. Fourthly, the Company constantly diversified its product marketing channels, and the radiation expansion layout was increasingly perfect. The Company has improved its independent marketing capability and has newly established Jinan Long'ao network with six physical outlets. The Company innovatively established a single account wealth management business, make important steps in wealth management transformation. The Company continued to deepen the cooperation between distribution channels and institutions, and added new sales channels with a number of commercial banks, securities companies and other financial institutions during the year to further diversify the types of trust products. Company has set up additional business teams around key cities and key provinces in China. The business coverage has continued to expand, and the national expansion capacity has been significantly improved. Fifthly, the Company continued to lay the foundation for compliance operations and constantly improved its comprehensive risk management system. The Company strengthened internal control management, adhered to "compliance first", carried out solid risk inspections and special audits for key business areas, promoted compliance culture, and strengthened compliance education. The Company followed the principle of "measurable, controllable and bearable" of risks, and strengthened its comprehensive risk management, asset risk classification management, business concentration management, due diligence management, etc. with the guidance of system construction to promote the advancement of risk prevention and control.

In 2019, the Group achieved operating income with an amount of RMB1,886.7 million, representing a year-on-year increase of 11.3%. Meanwhile, the net profit attributable to shareholders of the Company was RMB663.9 million, representing a year-on-year decrease of 23.9%, mainly due to the combined influence of a year-on-year decrease in the net gains on disposal of associates held by consolidated structural entities, interest income and other operating income, and a year-on-year increase in fee and commission income, net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, staff costs and loan impairment charges and other credit risk provision.

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 our segment income and its main components for the periods indicated:

	Year ended 31 December			
	2019		2018	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>(RMB in thousands, except for %)</i>				
Trust business				
Operating income	1,039,816	51.72%	943,651	51.66%
Segment income	1,039,816	51.72%	943,651	51.66%
Proprietary business				
Operating income	846,850	42.12%	750,855	41.10%
Share of profit of investments accounted for using the equity method	123,705	6.16%	132,197	7.24%
Segment income	970,555	48.28%	883,052	48.34%
Total	<u>2,010,371</u>	<u>100.00%</u>	<u>1,826,703</u>	<u>100.00%</u>

In 2019, the income from the trust business and proprietary business of the Group accounted for 51.7% and 48.3% of the total revenue of the Group, respectively.

3.2.1 Trust Business

In 2019, in proactive response to the changes in the economic trend and regulatory policies in the PRC, the Company continued to strengthen its active management capability, firmly revisit the fundamentals and accelerate the pace of transformation and innovation. Firstly, the Company continued to make effort in its active management business, and achieved significant improvements in the quality and efficiency of its trust business. The quality and volume of the active management business of the Company has increased, and the business structure and income structure were continuously optimised. Secondly, the Company firmly revisited the fundamentals of trust and made innovation on the family trust operation model. The scale of the family trust business of the Company continued to expand, and the influence of the “De Shan Qi Jia” brand continued to increase. The Company successfully created non-listed company equity-type and self-managed family trusts, and developed and launched standardised products such as funds for wedding and education, which further enhanced the ability of customised and professional service. The Company has added a number of cooperation agencies including life insurance companies

and commercial banks, and the scope of strategic partners has continuously expanded. Thirdly, the Company sped up transformation and innovation, and accelerated development of new growth drivers. The Company actively promoted standardised businesses. The “Tian Xi Ying” cash management trust products and standardised ABS trusts were successfully launched. The scale of consumption trusts and bond trusts continued to expand, and the product line of the Company became more diversified, which expanded the diversified and stable investment channels for investors. Fourthly, the marketing channels of the Company have continuously expanded and its marketing capabilities have steadily improved. The marketing team of the Company has continued to grow, wealth outlets have continued to increase, and with the implementation of full-scale marketing, independent marketing capabilities was significantly improved. The Company further deepened the cooperation between distribution channels and institutions, thereby improving the capability of capital end to acquire customers.

In 2019, the Company improved its active management capability, and accelerated the pace of the trust industry while revisiting the fundamentals of trust. In 2019, both the trust assets under management (“AUM”) and income from trust businesses of the Company recorded a year-on-year increase, while the proportions of the scale of AUM and the income from actively managed trust maintained a steady growth compared to the entire trust business. The trust AUM of all the Company’s trusts increased from RMB231,922 million as at 31 December 2018 to RMB257,664 million as at 31 December 2019, and the total number of trusts were 1,078 and 1,202, respectively, as at the respective dates. As at 31 December 2019, the AUM of actively managed trust was RMB109,677 million, accounting for 42.6% of the total trust AUM (indicating a year-on-year growth of 3.9 percentage points). During the Reporting Period, revenue from the actively managed trust amounted to RMB797 million, accounting for 76.8% of the fee and commission income of the total income from the trust business (indicating a year-on-year growth of 6.4 percentage points).

Classification of trusts

With the flexible trust arrangements under PRC laws, advantages of mixed operations under the Company's trust license and strong active management 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 financing solutions for real estate development projects, infrastructure projects and other various types of enterprises.
- (2) Investment trusts: The Company is responsible for or participates in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of 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.

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			
	2019		2018	
	<i>Number</i>	<i>AUM</i>	<i>Number</i>	<i>AUM</i>
	<i>(AUM: RMB in millions)</i>			
Financing trusts	150	37,524	136	42,227
Investment trusts	663	72,153	531	47,431
Administrative management trusts	389	147,987	411	142,264
Total	1,202	257,664	1,078	231,922

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			
	2019		2018	
	<i>Revenue</i>	<i>%</i>	<i>Revenue</i>	<i>%</i>
	<i>(Revenue: RMB in millions)</i>			
Financing trusts	387	37.28	464	52.08
Investment trusts	410	39.50	163	18.29
Administrative management trusts	241	23.22	264	29.63
Total	1,038	100.00	891	100.00

Financing Trusts

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

- (1) **Real Estate Trusts:** The Company's real estate trusts focus on arranging debt financing and equity financing for real estate development projects located in China which are undertaken by top Chinese real estate developers. During the Reporting Period, the Company continued to promote the shift of real estate trusts from debt financing to "equity rights + creditors' rights" and equity 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 arranging various forms of financing for companies to satisfy their working capital needs in the general industrial and commercial sectors in the PRC. In 2019, the Company offered support to industrial and commercial sectors via industry investment funds and equity investments, which diversified the instruments available for the industrial and commercial sectors.

As at 31 December 2018 and 31 December 2019, the Company had managed 136 and 150 financing trusts, respectively, and the AUM decreased by 11.1% from RMB42,227 million as at 31 December 2018 to RMB37,524 million as at 31 December 2019. The revenue from financing trusts for 2019 decreased by 16.6% to RMB387 million as compared to 2018.

Investment Trusts

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

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

- (1) **Equity Investment Trusts:** The Company's equity investment trusts mainly invest in the equity of unlisted enterprises or trust business of other equity which may be invested as approved by the CBIRC with the funds of trust under the trust 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, 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 preservation and succession, family affairs management and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 31 December 2019, the Company's family trust business has signed in aggregate a contract amount of RMB10.4 billion, of which the trust assets that have actually been delivered amounted to RMB10.1 billion, representing a year-on-year increase of 52.93%, thus continuing to secure a leading position in the industry. Since 2019, the Company actively researched and developed standard family trust products, so that we will become the first mover in developing standard family trust. The Company identified target customers and enhanced customer cohesiveness to expand its customer base and cultivate new profit growth engines for the long-term stability of the Company. The Company's "Wealth Succession Family Trust" (財富傳承系列家族信託) was awarded "Top 10 Family Trust Management Innovation Award by Securities" (十佳家族信託管理創新獎) by The Banker (《銀行家》), representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.
- (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 2019, the Company managed nine discretionary wealth management trusts, with the AUM reaching approximately RMB1.855 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 2019, the Company managed five charitable trusts, with the AUM reaching approximately RMB65.2 million.

As at 31 December 2018 and 31 December 2019, the Company had 531 and 663 investment trusts, respectively, with AUM increasing by 52.1% from RMB47,431 million as at 31 December 2018 to RMB72,153 million as at 31 December 2019. Revenue from investment trusts for 2019 amounted to RMB410 million, representing an increase of 151.5% as compared to 2018.

Administrative Management Trusts

Through the administrative management trusts, the Company provides administrative services to the trustors, whilst at the same time aiming at satisfying the investment needs of trustor clients on the one hand and the financing needs of the clients' counterparties on the other hand. The Company established administrative management trusts pursuant to the instructions of trustors and provided financing and investments for real estate development projects, infrastructure projects, and various industrial and commercial enterprises chosen by those trustors. For this type of 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.

As at 31 December 2018 and 31 December 2019, the Company had 411 and 389 administrative management trusts, respectively, with the AUM increasing by 4.0% from RMB142,264 million as at 31 December 2018 to RMB147,987 million as at 31 December 2019. In 2019, the income of the Company from administrative management trusts was RMB241 million, representing a decrease of 8.7% as compared to 2018.

3.2.2 Proprietary Business

In 2019, in order to reasonably allocate its own funds, satisfy the layout requirements of domestic business strategic development planning and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, medium-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between its proprietary business and the trust business, actively implemented the “investment and loan linkage mechanism”, and provided great support for the transformation and innovation of the “equity + debts” trust business. Secondly, the Company fully utilised its qualification to operate its equity investment business with its proprietary assets and participated in the establishment of venture capital funds, in a bid to seek proprietary business transformation and development, and foster new growth engines. Thirdly, with a full awareness of the current landscape, the Company actively pushed forward the transformation for First-Trust Fund Management Co. Ltd.* (泰信基金管理有限公司) and focused on the optimisation of the layout of the financial equity investment business. Fourthly, with liquidity being assured, short term operations such as diversified investments, government bonds purchased under agreements to resell with liquidity, purchase of monetary fund and dedicated account management for overseas assets were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Fifthly, the Company strengthened exchanges and communication with financial companies stationed in Hong Kong, actively explore solutions to open up domestic and overseas asset allocation channels, and laid a solid foundation for overseas expansion. The Company recorded a segment income of RMB970.6 million from its proprietary business in 2019, representing a year-on-year increase of 9.9%, mainly due to the increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value realised from the segment of proprietary business of the Company from loss of RMB32.3 million in 2018 to income of RMB300.0 million in 2019, investment income increased from loss of RMB25.2 million

in 2018 to income of RMB14.2 million in 2019, partially offset by the net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in 2018 and only a small amount of gain was recorded in 2019 and interest income decreased from RMB646.8 million in 2018 to RMB528.6 million in 2019.

Allocation of Proprietary Assets

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

In conducting the Company's proprietary business, the Company allocates 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.

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	
	2019	2018
	<i>(RMB in thousands)</i>	
Investments in monetary assets	875,904	993,793
Deposits at banks	866,904	898,693
Government bonds purchased under agreements to resell	9,000	95,100
Securities Investments	6,177,811	6,643,234
<i>Investment in equity products</i>	645,436	406,645
Listed shares classified as:		
— financial assets at FVPL	47,007	1,601
Subtotal	47,007	1,601
Mutual funds classified as:		
— financial assets at FVPL	555,880	360,759
Subtotal	555,880	360,759
Equity investment in unlisted entities classified as financial assets at FVPL	42,549	44,285
<i>Investment in wealth management products</i>		
Investments in our consolidated trust schemes	5,098,350	5,508,521
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortised cost	1,027	60,210

	As at 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Investment in unconsolidated trust schemes classified as financial assets at FVPL	258,863	534,345
Asset management plans	174,135	133,513
Long-Term Equity Investments	1,488,410	1,364,214
Investment accounted for using the equity method	1,309,906	1,246,219
Investment classified as financial assets at FVPL	178,504	117,995
Proprietary Loans	1,295,271	516,573
Trust Industry Protection Fund	95,668	92,109
Total	9,933,064	9,609,923

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	
	2019	2018
	<i>(RMB in thousands)</i>	
Investment in monetary assets		
— Deposit at banks	866,904	898,693
— Government bonds purchased under agreements to resell	9,000	95,100
Total	875,904	993,793

Year ended 31 December
2019 2018
(RMB in thousands)

Interest income generated from:

— Deposit at banks	4,782	11,692
— Government bonds purchased under agreements to resell	8,912	17,888

Total	<u>13,694</u>	<u>29,580</u>
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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 2.0% and 1.5% for the years ended 31 December 2018 and 31 December 2019, respectively. The decrease in average investment return was due to the decrease in the average investment amount of reverse repurchase of treasury bonds in 2019 and the funds deposited in overseas banks as compared with the same period last year.

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	
	2019	2018
	<i>(RMB in millions, except risk category)</i>	
Risk category of underlying investments		
— Equity products	High	High
— Trust schemes	Medium	Medium
— Asset management products	Medium	Medium
Average investment balance ⁽¹⁾		
— Equity products	526.0	410.4
— Trust schemes	5,730.7	5,272.0
— Asset management products	153.8	150.6

Note:

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 28.2% from RMB410.4 million in 2018 to RMB526.0 million in 2019; the average balance of investments in trust schemes increased by 8.7% from RMB5,272.0 million in 2018 to RMB5,730.7 million in 2019; and the average balance of the Company's investments in asset management products increased by 2.1% from RMB150.6 million in 2018 to RMB153.8 million in 2019.

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 2019, 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 2019	Board seat	First investment date	Accounting treatment
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限 公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method
Shandong HOWO Automotive Finance Co., Ltd.* (山東豪沃汽車金融有限公司)	Automobile financing	10.00%	Yes	September 2015	Investments accounted for using the equity method
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限 公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd.* (泰山財產保險股份有限公司)	Insurance products and services	9.85%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd.* (德州銀行股份有限 公司)	Commercial banking	2.37%	Yes	November 2009	Investments accounted for using the equity method
Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	Securities brokerage, securities asset management and proprietary investment	1.38%	No	January 1999	Financial assets at FVPL

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

income generated) for the periods indicated below are summarised as follows:

	As at 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Long-term equity investments, accounted for:		
— As associate using the equity method	1,309,906	1,246,219
— Investment categorized as financial assets at FVPL	178,504	117,995
Total	<u>1,488,410</u>	<u>1,364,214</u>
	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Dividend income generated from:		
— As associate using the equity method	43,355	25,013
— Investment categorized as financial assets at FVPL	—	5,911
Total	<u>43,355</u>	<u>30,924</u>

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 2.4% and 3.0% for the years ended 31 December 2018 and 31 December 2019, respectively. The increase in average return on long-term equity investments in 2019 as compared to that of 2018 was primarily due to the increase in dividend income from the associates of the Company in 2019.

Proprietary Loans

While the Company is allowed to grant proprietary loans to its customers, it does not engage in such business on a regular basis. As at 31 December 2018 and 31 December 2019, the outstanding balance of the Company's proprietary loans were RMB516.6 million and RMB1,295.3 million, respectively.

Trust Industry Protection Fund

According to the Administrative Measures on Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, trust companies are required to subscribe for a certain amount of the Trust Industry Protection Fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 3.9% from RMB92.1 million as at 31 December 2018 to RMB95.7 million as at 31 December 2019.

3.3 FINANCIAL OVERVIEW

Consolidated Statement of Comprehensive Income Analysis

In 2019, the net profit attributable to Shareholders of the Company amounted to RMB663.9 million, which decreased by RMB208.3 million as compared to the corresponding period of last year, representing a decrease of 23.9%.

3.3.1 Results of Operations

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Fee and commission income	1,037,771	891,301
Interest income	529,807	647,511
Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value	299,999	(32,274)
Investment income/(loss)	14,231	(25,231)
Net gains on disposal of associates held by consolidated structured entities	3,062	160,851
Other operating income	1,796	52,348
Total operating income	1,886,666	1,694,506
Interest expenses	(137,873)	(192,801)
Staff costs (including directors and supervisors' emoluments)	(189,401)	(125,519)
Operating lease payments	(9,070)	(11,661)
Depreciation and amortisation	(10,406)	(8,106)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(475)	(19,754)
Tax and surcharges	(18,917)	(12,978)
Other operating expenses	(62,813)	(73,330)
Auditor's remuneration	(1,792)	(1,792)
Loan impairment charges and other credit risk provision	(688,059)	(220,822)
Impairment losses on other assets	(13,730)	(33,093)
Total operating expenses	(1,132,536)	(699,856)
Share of profit of investments accounted for using the equity method	123,705	132,197
Operating profit before income tax	877,835	1,126,847
Income tax expense	(213,929)	(254,599)
Net profit attributable to shareholders of the Company	663,906	872,248

3.3.2 Total operating income

Fee and Commission Income

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Fee and commission income:		
Trustee's remuneration	1,037,565	888,535
Others	206	2,766
Total	<u>1,037,771</u>	<u>891,301</u>

The Group's fee and commission income in 2019 was RMB1,037.8 million, representing an increase of 16.4% as compared to RMB891.3 million in 2018. Such increase was primarily due to an increase in the Group's trustee's remuneration, which was caused by an increase in the AUM in 2019.

Interest Income

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Interest income from:		
Cash and bank deposits balance	4,782	11,692
Loans to customers	502,438	601,806
Investments classified as financial investment measured at amortised cost	6,746	10,244
Financial assets purchased under agreements to resell	8,912	17,888
Contribution to Trust Industry Protection Fund on behalf of trust schemes	6,929	5,881
Total	<u>529,807</u>	<u>647,511</u>

The Group's interest income in 2019 was RMB529.8 million, representing a decrease of 18.2% as compared to the RMB647.5 million in 2018. Such decrease was primarily due to the following factors:

- (1) The Group's interest income from loans to customers decreased by 16.5% from RMB601.8 million in 2018 to RMB502.4 million in 2019, mainly due to the decrease in scale of the loans granted under the consolidated trust schemes for which the Group recorded interest income in 2019.
- (2) The Group's interest income from financial assets purchased under agreements to resell decreased by 50.2% from RMB17.9 million in 2018 to RMB8.9 million in 2019, primarily due to the decrease in the Company's average investment amount of government bonds under reverse repurchase agreements in 2019 as compared to the same period last year.
- (3) The Group's interest income from cash and bank deposits balance decreased by 59.1% from RMB11.7 million to RMB4.8 million in 2019, primary due to the decrease in deposit with foreign banks for which the Group recorded interest income recorded by the Group in 2019.

- (4) The Group's interest income from investments classified as financial investments measured at amortised cost decreased by 34.1% from RMB10.2 million in 2018 to RMB6.7 million in 2019, primarily due to the decrease in the average amount of the financial investments measured at amortised cost of the Group in 2019 as compared to the same period last year.

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

Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value increased from a loss of RMB32.3 million in 2018 to a gain of RMB300.0 million in 2019, primarily due to (i) the increase in the value of financial assets at FVPL held by the Group affected by the capital market; and (ii) the increase in valuation of associates indirectly held by the Group through trust schemes measured at fair value.

Investment Income/(Loss)

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Dividends income from:		
Financial assets at FVPL	275	5,911
Net realised gains/(losses) from:		
Financial assets at FVPL	<u>13,956</u>	<u>(31,142)</u>
Total	<u>14,231</u>	<u>(25,231)</u>

The Group's investment gains in 2019 were a gain of RMB14.2 million, increased by RMB39.4 million as compared to the losses of RMB25.2 million in 2018, due to the gains arising from disposals of investments in trust schemes at FVPL in 2019.

Net Gains on Disposal of Associates Held by Consolidated Structured Entities

Consolidated structured entities of the Group include the trust schemes developed and managed by the Group. In 2018, the equity interests held by the specific consolidated structured entities which were accounted for by the Group using the equity method were disposed of, and the Group realised a net gain of RMB160.9 million, while only a small amount of gains were recorded in 2019.

3.3.3 Total Operating Expenses

Interest Expenses

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

The Group's interest expenses in 2019 were RMB137.9 million, decreased by 28.5% as compared to RMB192.8 million in 2018, mainly due to (i) the decrease in expected return attributable to the third-party beneficiaries of the consolidated finance trust scheme of the Group (after offsetting the impairment losses attributable to such third-party beneficiaries), which was mainly due to the increase in the impairment attributable to third-party beneficiaries of the consolidated finance trust scheme of the Group from 2018 to 2019; and (ii) the decrease in interest paid to China Trust Protection Fund Co., Ltd..

Staff costs (including directors' and supervisors' emoluments)

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Salaries and bonuses	155,343	92,832
Pension costs (defined contribution plans)	10,895	11,337
Housing funds	6,462	5,119
Labour union fee and staff education expenses	6,044	2,027
Other social security and benefit costs	10,657	14,204
Total	<u>189,401</u>	<u>125,519</u>

The Group's staff costs in 2019 were RMB189.4 million, increased by 50.9% as compared to RMB125.5 million in 2018, primarily due to the increases in salaries and bonuses.

Tax and surcharges

The Group's tax and surcharges increased by 45.8% from RMB13.0 million in 2018 to RMB18.9 million in 2019, primarily due to the increase in tax and surcharges payable in 2019.

Other Operating Expenses

The Group's other operating expenses decreased by 14.3% from RMB73.3 million in 2018 to RMB62.8 million in 2019, primarily due to the decrease in the expenses incurred in consolidated trust schemes in 2019.

Impairment Losses on Assets

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Loan impairment charges and other credit risk provision		
— Loans to customers	675,629	178,092
— Financial investments measured at amortised cost	1,261	10,709
— Trustee's remuneration receivable	5,687	(1,612)
— Others	5,482	33,633
Sub-total	688,059	220,822
Impairment loss on other assets		
— Investment in art work	11,397	25,426
— Share of investments accounted for using the equity method	2,333	7,667
Sub-total	13,730	33,093
Total	<u>701,789</u>	<u>253,915</u>

The loan impairment charges and other credit risk provision of the Group increased by 211.6% from RMB220.8 million in 2018 to RMB688.1 million, which was primarily due to the increase in impairment allowance for loans to customer held by the Group.

Impairment loss on other assets of the Group decreased by 58.5% from RMB33.1 million in 2018 to RMB13.7 million in 2019, which was primarily due to the decrease in the impairment loss on art work invested by the Group in 2019.

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 decreased by 6.4% from RMB132.2 million 2018 to RMB123.7 million in 2019.

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	
	2019	2018
	<i>(RMB in thousands)</i>	
Operating profit before income tax	877,835	1,126,847
Operating margin ⁽¹⁾	46.5%	66.5%

Note:

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

As a result of the foregoing, the Group's operating profit before income tax decreased by 22.1% from RMB1,126.8 million in 2018 to RMB877.8 million in 2019, and the Group's operating profit margin decreased from 66.5% in 2018 to 46.5% in 2019.

Income Tax Expense

The Group's income tax expense decreased by 16.0% from RMB254.6 million in 2018 to RMB213.9 million in 2019 primarily due to a decrease in operating profit before income tax generated by the Group in 2019.

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 Group's net profit margin for the periods indicated:

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Net profit attributable to shareholders of the Company	663,906	872,248
Net profit margin ⁽¹⁾	35.2%	51.5%

Note:

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

As a result of the foregoing, the net profit attributable to the shareholders of the Company decreased by 23.9% from RMB872.2 million in 2018 to RMB663.9 million in 2019. The Group's net profit margin decreased from 51.5% in 2018 to 35.2% in 2019.

3.3.4 Segment Results of Operations

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Trust business:		
Operating income	<u>1,039,816</u>	<u>943,651</u>
Segment income	<u><u>1,039,816</u></u>	<u><u>943,651</u></u>
Proprietary business:		
Operating income	846,850	750,855
Share of profit of investments accounted for using the equity method	<u>123,705</u>	<u>132,197</u>
Segment income	<u><u>970,555</u></u>	<u><u>883,052</u></u>

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Trust business	(268,168)	(220,512)
Proprietary business	<u>(864,368)</u>	<u>(479,344)</u>
Total operating expenses	<u><u>(1,132,536)</u></u>	<u><u>(699,856)</u></u>

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Trust business	771,648	723,139
Proprietary business	106,187	403,708
Total operating profit before income tax	877,835	1,126,847

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

	Year ended 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Trust business	74.2%	76.6%
Proprietary business	10.9%	45.7%

3.3.5 Trust business

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

The segment operating profit before income tax for the Group's trust business increased by 6.7% from RMB723.1 million in 2018 to RMB771.6 million in 2019, primarily due to an increase of 10.2% in the segment income from the trust business from RMB943.7 million in 2018 to RMB1,039.8 million in 2019, partially offset by the increase of 21.6% in segment operating expenses in the trust business from RMB220.5 million in 2018 to RMB268.2 million in 2019.

The increase in the segment income from the trust business was mainly due to an increase in the Group's fee and commission income from RMB891.3 million in 2018 to RMB1,037.8 million in 2019.

The increase in the segment operating expenses in the trust business was mainly due to an increase in staff cost from RMB119.2 million in 2018 to RMB182.6 million in 2019.

As a result of the foregoing, the segment margin of the trust business decreased from 76.6% in 2018 to 74.2% in 2019.

3.3.6 Proprietary Business

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

The segment operating profit before income tax for the Group's proprietary business decreased by 73.7% from RMB403.7 million in 2018 to RMB106.2 million in 2019, primarily due to an increase of 80.3% in the segment operating expenses from the proprietary business from RMB479.3 million in 2018 to RMB864.4 million in 2019, partially offset by the increase of 9.9% in the segment income from the proprietary business from RMB883.1 million in 2018 to RMB970.6 million in 2019.

- (1) The increase in segment operating expenses from the proprietary business was mainly due to the increase in loan impairment charges and other credit risk provision from RMB220.8 million in 2018 to RMB688.1 million in 2019. Loan impairment charges and other credit risk provision was partially offset by the decrease in interest expenses from RMB192.8 million in 2018 to RMB137.9 million in 2019, decrease in change in net assets attributable to other beneficiaries of consolidated structured entities from RMB19.8 million in 2018 to RMB0.5 million in 2019 and decrease in impairment losses on other assets from RMB33.1 million in 2018 to RMB13.7 million in 2019.
- (2) The increase in the segment income from the proprietary business was mainly due to (i) an increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from loss of RMB32.3 million in 2018 to income of RMB300.0 million in 2019; (ii) investment income increased from loss of RMB25.2 million in 2018 to income of RMB14.2 million in 2019. The net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income were partially offset by the net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in 2018 and only a small amount of gain was recorded in 2019 and interest income decreased from RMB646.8 million in 2018 to RMB528.6 million in 2019.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 45.7% in 2018 to 10.9% in 2019.

3.3.7 Selected Consolidated Financial Positions

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

Assets

As at 31 December 2018 and 31 December 2019, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB13,611.8 million and RMB14,572.3 million, respectively, of which the total assets of the Company amounted to RMB10,975.9 million and RMB11,200.6 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments measured at amortised cost, (iv) financial assets at FVPL, (v) cash and bank balances and (vi) trustee's remuneration receivable. As at 31 December 2019, the above-mentioned major assets accounted for 53.5%, 19.1%, 0.5%, 10.5%, 6.6% and 1.5%, respectively, of the total assets of the Group.

Loans to Customers

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

	As at 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	9,027,180	7,683,391
Interest receivable	53,398	75,340
Less: Expected credit losses provision		
– loans	(1,276,128)	(600,424)
Expected credit losses provision		
– interest receivable	(1,479)	(1,554)
Loans to customers, net	7,802,971	7,156,753
Classified as:		
– Non-current assets	5,659,408	3,249,109
– Current assets	2,143,563	3,907,644
Loans to customers, net	7,802,971	7,156,753

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

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

Some of the loans granted by the Group's trust schemes to which it made proprietary investment and consolidated into the Group's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 13.7% from RMB1,375.4 million as at 31 December 2018 to RMB1,563.5 million as at 31 December 2019. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2018 and 31 December 2019 were RMB765.3 million and RMB742.5 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB470.3 million and RMB1,083.5 million for these impaired loans as at 31 December 2018 and 31 December 2019, respectively, representing 34.2% and 69.3% 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 17.9% and 17.3% of the Group's gross loans to customers as at 31 December 2018 and 31 December 2019, respectively.

While the Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans, the Company does not regularly conduct such business. As at 31 December 2019, the gross amount of proprietary loans and the net amount of proprietary loans of the Company accounted for 17.4% and 16.5% of the gross amount of the Company's loans to customers and the net amount of the Company's loans to customers, respectively.

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

	As at 31 December	
	2019	2018
	<i>(RMB in thousands)</i>	
Loans to customers, at amortised cost	1,571,795	602,000
Interest receivable	13,976	28,500
Less: Expected credit losses provision		
– loans	(290,113)	(85,427)
Expected credit losses provision		
– interest receivable	(387)	(588)
Loans to customers, net	1,295,271	544,485
Classified as:		
– Non-current assets	1,281,682	148,185
– Current assets	13,589	396,300
Loans to customers, net	1,295,271	544,485

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

Investments in Associates

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

	Equity Interest as at 31 December 2019	As at 31 December 2019	2018
		<i>(RMB in thousands)</i>	
Associates of the Company accounted for using the equity method:			
Fullgoal Fund Management Co., Ltd.* (富國基金管理有限 公司)	16.68 %	658,056	565,995
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產 保險股份有限公司)	9.85 %	216,375	207,147
Shandong HOWO Auto Finance Co., Ltd.* (山東豪沃汽車金 融有限公司)	10.00 %	198,755	192,474
Dezhou Bank Co., Ltd.* (德州銀 行股份有限公司)	2.37 %	107,888	150,010
First-Trust Fund Management Co., Ltd.* (泰信基金管理有限 公司)	45.00 %	47,469	68,833
Others		81,363	61,760
Gross amount		1,309,906	1,246,219
Impairment allowance		—	—
Associates of the Company accounted for using the equity method, net		1,309,906	1,246,219

	Equity Interest as at 31 December 2019	As at 31 December 2019 (RMB in thousands)	2018
Associates of the Company's certain consolidated structured entities accounted for using the equity method:			
Shandong Provincial Financial Asset Management Co., Ltd.* (山東省金融資產管理股份 有限公司)	7.24%	620,282	621,044
Tailong Health Industry Investment Company Limited* (太龍健康 產業投資有限公司)	26.05%	50,758	52,100
Others		52,591	33,391
Gross amount		723,631	706,535
Impairment allowance		(10,000)	(7,667)
Associates of the Company's certain consolidated structured entities accounted for using the equity method, net		713,631	698,868
Associates indirectly held by the Group through trust schemes measured at fair value:			
Henan Liang Ding Property Co., Ltd.* (河南梁鼎置業有限 公司)	35.00%	153,087	94,650
Huizhou Zhengfeng Industrial Investment Co., Ltd. (惠州市 正豐實業投資有限公司)	15.2%	120,000	—
Cangzhou Liangsheng Property Development Co., Ltd.* (滄州 梁生房地產開發有限公司)	39.00%	119,087	—
Huangshi Liangsheng Real Estate Development Co., Ltd. (黃石 梁晟房地產開發有限公司)	28.00%	89,600	—

	Equity Interest as at 31 December 2019	As at 31 December 2019 (RMB in thousands)	2018
Tianjin Liangxin Property Development Co., Ltd.* (天津 梁信房地產開發有限公司)	40.00 %	87,546	—
Tianjin Liangshun Property Development Co., Ltd.* (天津 梁順房地產開發有限公司)	40.00 %	72,174	—
Tengzhou Haide Park Property Co., Ltd.* (滕州海德公園地 產有限公司)	20.20 %	53,980	—
Nanyang Zhongliang Chengtong Real Estate Co., Ltd. (南陽中 梁城通置業有限公司)	20.00 %	44,680	—
Shenzhen Qianhai Run Xin Investment Co., Ltd.* (深圳前 海潤信投資有限公司)	30.00 %	12,654	18,900
Liaocheng Liang Hong Property Co., Ltd.* (聊城梁宏置業有 限公司)	—	—	50,144
Total amount		752,808	163,694
Total		2,776,345	2,108,781

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	
	2019	2018
	<i>(RMB in thousands)</i>	
Listed shares	47,007	42,482
Equity investment in unlisted entities	374,347	556,314
Asset management products	178,455	168,603
Mutual funds	564,448	406,505
Investment in trust schemes	264,500	312,858
Trust Industry Protection Fund	95,668	92,109
Total	<u>1,524,425</u>	<u>1,578,871</u>

The changes in the major composition of the Group's financial assets at FVPL were due to the flexible adjustment of portfolio based on the market conditions by the Group in order to increase investment returns. Financial assets at FVPL decreased by 3.4% from RMB1,578.9 million as at 31 December 2018 to RMB1,524.4 million as at 31 December 2019, primarily due to (i) the increase in the Group's investment in mutual funds; (ii) the increase in the Group's investment in asset management products; (iii) decrease in the Group's investment in trust schemes; and (iv) decrease in the Group's equity investment in unlisted entities.

Cash and Bank Balance

As at 31 December 2018 and 31 December 2019, the Group's cash and bank balance amounted to RMB1,081.3 million and RMB964.4 million, respectively, of which RMB898.7 million and RMB866.9 million, respectively, were proprietary assets of the Group, 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 15.0% from RMB251.8 million as at 31 December 2018 to RMB214.1 million as at 31 December 2019. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 29 February 2020, 12.3% of the trustee's remuneration receivable was recovered.

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 decreased by 88.4% from RMB95.1 million as at 31 December 2018 to RMB11.0 million as at 31 December 2019. 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 2018 and 31 December 2019, respectively.

Advance Payments

The Group's advance payments decreased from RMB161.0 million as at 31 December 2018 to RMB25.3 million as at 31 December 2019, primarily related to the decrease in advance payments made by the Company's consolidated trust schemes as at 31 December 2019.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Measures for the Administration of Trust Industry Protection Fund (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to 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 RMB560.2 million and RMB540.0 million as at 31 December 2018 and 31 December 2019, respectively, among which RMB316.6 million and RMB349.5 million were classified as non-current assets, and RMB243.6 million and RMB190.5 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.

Liabilities

As at 31 December 2018 and 31 December 2019, the Group's total liabilities amounted to RMB4,071.1 million and RMB4,761.9 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the Reporting Period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, income tax payables, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 31 December 2019, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, income tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 71.5%, 6.7%, 3.9%, 2.3% and 15.4% 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 noncurrent portions) increased by 34.8% from RMB2,525.8 million as at 31 December 2018 to RMB3,404.7 million as at 31 December 2019. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

Income Tax Payable

The Group's income tax payable decreased by 1.3% from RMB188.9 million as at 31 December 2018 to RMB186.4 million as at 31 December 2019.

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 increased from RMB283.7 million as at 31 December 2018 to RMB296.1 million as at 31 December 2019.

The Company's deferred trustee's remuneration decreased from RMB66.5 million as at 31 December 2018 to RMB47.1 million as at 31 December 2019.

The Notice in relation to Value-Added Tax Policies on Asset Management Products (Cai Shui [2017] No. 56) 《關於資管產品增值稅有關問題的通知》(財稅[2017]56 號) was promulgated by the Ministry of Finance of the PRC and the SAT on 30 June 2017 (the “**Notice**”). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As of 31 December 2019, the outstanding VAT for trusts and the related surcharges amounted to RMB104.4 million.

Off-balance Sheet Arrangements

As at 31 December 2019, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

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

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

As at 31 December 2018 and 31 December 2019, the Company had consolidated 51 and 58 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB8,676.8 million and RMB9,514.2 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	
	2019	2018
Beginning:	51	45
Newly consolidated trust schemes	25	23
Deconsolidated trust schemes	18	17
Ending:	58	51

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

	As at 31 December	
	2019	2018
	<i>(RMB million)</i>	
Total assets of the Company	11,201	10,976
Total assets of consolidated trust schemes	9,514	8,677
Consolidation adjustment	(6,143)	(6,041)
Total assets of the Group	<u>14,572</u>	<u>13,612</u>

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

	As at 31 December	
	2019	2018
	<i>(RMB million)</i>	
Total liabilities of the Company	1,439	1,608
Total liabilities of consolidated trust schemes	9,514	8,677
Consolidation adjustment	(6,191)	(6,214)
Total liabilities of the Group	<u>4,762</u>	<u>4,071</u>

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

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

	As at 31 December	
	2019	2018
	<i>(RMB million)</i>	
Total equity of the Company	9,762	9,368
Consolidation adjustment	48	173
Total equity of the Group	<u>9,810</u>	<u>9,541</u>

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:

	Year ended 31 December	
	2019	2018
	<i>(RMB million)</i>	
Net profit attributable to the Company's shareholders before consolidation of trust schemes	780	784
Impact of consolidation of trust schemes	(116)	88
Net profit attributable to the Group's shareholders after consolidation of trust schemes	<u>664</u>	<u>872</u>

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.

3.4 RISK MANAGEMENT

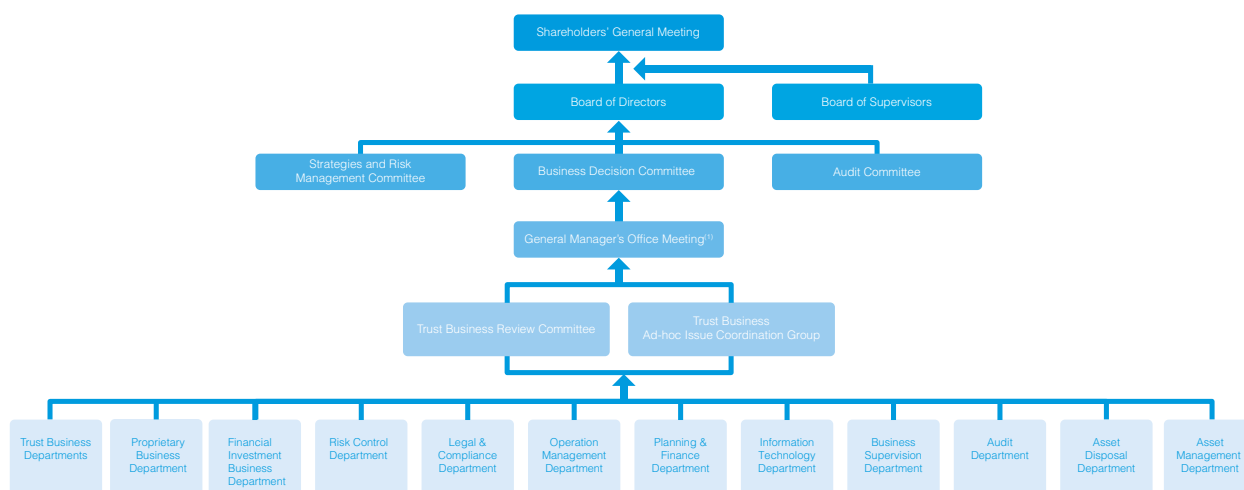
3.4.1 Overview

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

3.4.2 Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) 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 (including Regional Business Units) are required to assume primary risk management responsibilities.

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.

3.4.3 Factors Affecting the Company's Results of Operations

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

General Economic and Financial Market Conditions

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

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

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

Regulatory Environment

The Company's results of operations, financial condition and development prospects are affected by regulatory developments in the PRC. CBIRC, the main regulatory authority for the PRC trust industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. Recently, "deleveraging" and "risk prevention" became the keynote of regulation in the PRC financial industry. The regulatory authorities strengthened their management of and control over the pipeline business of trust companies, with an aim to procuring trust companies in enhancing active management capability to further raise the standard of risk management. In April 2018, the People's Bank of China, the CBIRC, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to unify the regulatory standards of asset management business by product types, requiring, among other things, financial institutions including trust companies to carry out "dechanneling" and "reduce nested systems" in conducting the asset management business. In 2019, the regulatory authorities strengthened their management of and control over the pipeline business of trust companies, with an aim to procuring trust companies in enhancing active management capability to further raise the standard of risk management and enhance risk resilience. The above 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 the fundamentals of trust industry. However, the regulatory authorities may also restrict the development of certain businesses of trust companies from time to time, which may have an adverse effect on the Company's business.

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

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 optimization of asset allocation, and the Company's success in this regard is also expected to significantly affect the Company's future results of operations and financial condition.

Competition

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

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

Interest Rate Environment

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

- Changes in lending rates may affect the comparative financing costs for the Company's counterparty clients from different financing sources and thereby affect their willingness to carry out financings through the Company's trust products;
- Changes in deposit interest rates may affect the comparative investment returns to the Company's trustor clients from different investment options and thereby affecting their willingness to invest in the Company's trust products;
- Changes in lending rates may affect the amount of interest income generated from 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.

3.4.4 Credit Risk Management

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

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

Credit Risk Management on Trust Business

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

Credit Risk Management on Proprietary Business

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

3.4.5 Market Risk Management

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

3.4.6 Liquidity Risk Management

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

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

3.4.7 Compliance Risk Management

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

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

3.4.8 Operational Risk Management

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

3.4.9 Reputational Risk Management

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

3.4.10 Other Risk Management

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

3.4.11 *Anti-money Laundering Management*

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

The Company established an Anti-Money Laundering 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.

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

3.5 Capital Management

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

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

The Company monitors its net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the 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 2019, the Company's net capital was approximately RMB7.869 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB4.018 billion; the ratio of net capital to total risk-based capital was 195.83%, which is not lower than 100%; and the ratio of net capital to net asset was 80.61%, which is not lower than 40%.

3.6 Future Prospect

International economic and financial situation will remain complex for a certain period in the future, and the rapid evolution of major changes in the world becomes increasingly evident. The global economy and the financial market will still be subject to uncertainties due to trade friction, financial market sentiment, geopolitics, public health emergencies and other factors. The Chinese economy is still under considerable downward pressure, but economic growth will remain resilient, with continuous shift of momentum for growth, and the basic trend of steady and long-term growth will remain unchanged. The financial industry will focus on in-depth supply-side structural reform, increase support to promote high-quality development, reduce the cost of social financing, take effective measures to prevent and mitigate financial risks, further open up the financial sector bilaterally at a high level, and promote the overall virtuous circle of the national economy. Trust business will further strengthen its confidence in transformation and development, adhere to the positioning of trustees, persist in the source of trust, insist on serving the real economy, strive to meet the growing wealth management needs of the people, persevere in the development of trust culture, improve risk management ability, adhere to the bottom line of compliance, and strive to achieve high-quality development of the industry.

3.7 Key Tasks For 2020

In 2020, the Company will actively comply with the guidance of new regulations on capital management and trust supervision, take the high-quality development “135 strategic plans” as guidance, take service entity as the foundation, return to the foundation as our core, smart trust as the support, leverage the advantages of the Hong Kong listing platform, and make every effort to accelerate the pace of transformation, innovation and reformation. Based on analysis and judgement about the domestic and international economic and financial situation, industry regulatory environment and competition in the asset management industry, coupled with the actual conditions of the Company, the Company proposes to carry out the following key tasks for 2020.

Consolidating traditional competitive business, expediting exploration of innovative business, and building a “new engine” for business growth.

Firstly, we will continue to optimize the business model with traditional advantages. We will further improve the ability of active management, carry out active management projects with equity investment concept, build a strategic customer ecosystem, and train the Company’s active management talent team. Secondly, we will continue to expand the scale of new innovative businesses. For our consumer financial business, we will further improve key risk control measures, upgrade their business models, and steadily expand their business scales; For our bond business, we will improve product investment and research systems, and launch featured self-management bond products and brands; For our cash management business, we will accelerate the progress of information system construction, ensure stable operation of products, and improve the business scale as soon as possible; For our direct equity investment business, we will gradually form the focused direction of independent venture capital business of the Company. Thirdly, we will insist on returning to our foundation, and continue to put efforts on highlighting the exclusive business of the responsibility of the trustee. We will consolidate and expand the advantages of our family trust business, upgrade high-end customised services, launch the “inclusive” and standardised family trust, and meet customers’ wealth planning throughout lifecycle via active management, family inheritance and other diverse needs. We will seize the opportunity of developing our service trust business, and actively seek cooperation opportunities by docking with relevant social resources and scenes. We will promote asset securitization and asset-like securitization business, and cultivate the business department to take it as the main development direction. Fourthly, the Company will deepen the concept of research and development to create value to effectively promote the business innovation of the Company, and organize the preparation of the “**Ten-four-five**” development plan of the Company to provide strategic guidance for the transformation and development of the Company.

Taking financial technology as support and strengthening the strategic development of smart trust. Taking the second phase of the smart trust strategy system construction as an opportunity, we will focus on the improvement of IT basic capabilities, the construction of large and medium platforms, the improvement of basic capabilities of information security and the core business needs, and actively promote the implementation of the plan item by item. We will complete the 3 to 5 years' strategy for smart trust, advance the information system security upgrade, actively push forward the construction of data centre and report platform, respond to remarkable weaknesses, problems and needs of the internal operations, improve online operation management, standardisation, intelligent level, enable business development of technology with technical support, and further promote continuous improvement on operating efficiency of the Company.

Continuing to enhance the ability of independent marketing, and accelerating the transformation of wealth management. We will further accelerate the layout of wealth outlets and establishment of the marketing system, continue to orderly establish outlets in Jinan city and the development of wealth management personnel team. We will promote the combination of online and offline marketing, and accelerate the development of online marketing. We will carry out in-depth communication with provincial financial institutions, state-owned enterprises and other institutions, vigorously expand institutional customers, seize the opportunity to set up professional department, and vigorously expand wealth account management business. We further expand the wealth management team and financial industry talent team, we will accelerate the transformation of capital terminal from product sales to wealth management through the introduction of mature team.

Taking multiple measures to accelerate the building of a comprehensive financial services platform. First, we will focus on promoting the completion of the capital increase and steady development of First-Trust Fund. We will strengthen the establishment of the management team and establishment of the system and mechanism of First-Trust Fund, thereby striving to improve the scale of asset management and increase profitability in a practical manner. Secondly, we will accelerate the integration of existing financial license of the Company, optimise the investment layout of financial equity. We will accelerate the disposal of non-core financial equity and explore ways to promote strategic investment in new financial equity. Thirdly, by virtue of the platform advantages of Hong Kong listed companies, we will speed up the international business layout, realise the coordinated linkage of domestic and foreign business, and meet the cross-border investment and financing needs of domestic enterprises and high-net-worth clients.

Continuing to deepen reform of the “three systems”, minimizing risk, and strengthening the culture of compliance. First, we will further optimise the organisational structure and human resource management system. We will promote the integration and reconstruction of departments, optimise the remuneration assessment system, and guide the full flow of talent resources in innovative business and original business; we will further improve talent cultivation mechanism, formulate personalised talent cultivation programs, and comprehensively improve the scientific and systematic level of human resources management. Secondly, we should adhere to the principle of “being measurable, controllable and tolerable” in risk management, and put risk prevention in a more prominent position. We will optimise the risk control system, explore new risk control models, strictly control the entry points of projects, and strengthen “imminent management”. We will intensify the disposal of non-performing assets, actively promote the disposal of risk projects, and strive to maintain stable asset quality. Thirdly, we will strengthen the development of compliance culture and build a characteristic trust culture. We will carry out a series of work related to the management of personnel behaviors, system training and testing, and the construction of appropriateness of sales, vigorously create a compliance atmosphere highlighting “compliance creates value and everyone is responsible for compliance”, and create a compliance culture of “no violation, not allowing violation, no willingness to violate”.

4 USE OF PROCEEDS

The Company was listed on the The Stock Exchange of Hong Kong Limited (“**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.

As at 31 December 2019, approximately HK\$33 million of proceeds were retained overseas to be used for expansion of overseas business, seeking cooperation in the area of international business or to be remitted for domestic use in the future in accordance with the needs of the actual business development of the Company. Save for the above, the remaining proceeds have been settled into the PRC, all of which have been utilised in the manner set out in the prospectus and categorised into our existing proprietary assets and allocated to different categories of assets, which significantly increased our net capital.

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

5. PROFITS AND DIVIDENDS

The Company's profits for the year ended 31 December 2019 are set out in the section headed "Management Discussion and Analysis — Financial Overview" in this results announcement.

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

The Board has recommended the payment of the final dividend of RMB0.055 per share (tax inclusive) in cash for the year ended 31 December 2019, representing a total payment of approximately RMB256.2 million (tax inclusive). The final dividend is subject to approval of the Shareholders at the forthcoming annual general meeting of the Company for 2019 (expected to be held on 17 June 2020). If approved, the final dividend of the Company for the year ended 31 December 2019 will be denominated and declared in Renminbi in accordance with the relevant provisions of the Articles of Association, namely, within two months from the date of the annual general meeting of the Company for the year 2019 (i.e. not later than 17 August 2020). Distribution of the dividends to holders of domestic Shares of the Company will be paid in Renminbi, while dividends to holders of H Shares of the Company will be paid in Hong Kong dollars of an equivalent amount. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average central parity exchange rate of the five business days preceding the date of the annual general meeting of the Company for the year 2019, as announced by the People's Bank of China.

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

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

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

The Board of Supervisors is comprised of Mr. Guo Shougui as the Chairman, and Mr. Hou Zhenkai, Mr. Chen Yong, Mr. Wu Chen, Ms. Wang Zhimei, Mr. Guan Wei, Mr. Tian Zhiguo, Mr. Zuo Hui and Mr. Zhang Wenbin as Supervisors.

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

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

Changes of Directors

Mr. Wan Zhong has been appointed as the chairperson of the Company by the Board, and his qualification to act as the chairperson has been approved by the Shandong Office of CBIRC (“**Shandong Office of CBIRC**”) and took effect from 9 January 2019.

Ms. Wang Bailing (“**Ms. Wang**”) has been elected as the non-executive Director of the Company at the 2019 first extraordinary general meeting held on 28 November 2019, and has been appointed by the Board to serve as a member of the Trust Committee. The qualification of Ms. Wang to hold the office as a non-executive Director was approved by the Shandong Office of CBIRC on 25 March 2020, and her appointment to the above-mentioned committee has been effective.

Changes of Supervisors

Due to work adjustment, Ms. Li Aiping, the employee representative Supervisor of the Company, ceased to be the employee representative Supervisor of the Company since 30 September 2019.

Mr. Zhang Wenbin was elected as an employee representative Supervisor of the Company at the employee representative meeting held on 25 October 2019, with a term of office commencing on the same date.

Changes of senior management

Upon consideration and approval at the Board meeting on 9 July 2019, Mr. Ma Wenbo, chief financial officer of the Company, ceased to serve as chief financial officer of the Company due to work arrangement. The Board engaged Mr. Wang Ping to serve as chief financial officer of the Company on the same date. Prior to the effective of the qualification of Mr. Wang Ping to serve as chief financial officer, Mr. Ma Wenbo continued to assume responsibilities as chief financial officer. The qualification of Mr. Wang Ping to serve as chief financial officer has become effective upon approval by the Shandong Office of the CBIRC on 16 September 2019.

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

7. CORPORATE GOVERNANCE CODE

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

8. MODEL CODE FOR CONDUCTING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct for its Directors and Supervisors to conduct securities transactions. Upon specific enquiries made by the Company to all of the Directors and Supervisors, each of the Directors and Supervisors has confirmed that they had complied with the required standard as set out in the Model Code throughout the period from 1 January 2019 to 31 December 2019.

Throughout the period from 1 January 2019 up to 31 December 2019, the Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standard as set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company’s securities.

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

For the period from 1 January 2019 to 31 December 2019, the Company did not purchase, sell or redeem any of the Company’s listed securities.

10. CONNECTED TRANSACTIONS

During the Reporting Period, the Company conducted the following connected transactions. Such transactions have been in compliance with the disclosure requirements of Chapter 14A of the Listing Rules.

10.1 Renewal of Continuing Connected Transactions

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

Since (i) CNPC Assets Management Co., Ltd. is a Substantial Shareholder of the Company; (ii) Shandong Luxin Investment Holdings Group Co., Ltd. (**“Lucion Group”**) is the Controlling Shareholder of the Company; (iii) each of Shandong Luxin Advertisement Co., Ltd. and Luxin Science and Technology Co., Ltd. is a non wholly-owned subsidiary of Lucion Group; and (iv) Shandong Taishan Culture Art Exchange is a 30%-controlled company held by Lucion Group. Therefore, under Chapter 14A of the Listing Rules, each of them is a connected person of the Company and the transactions to be contemplated under the Renewed Framework Agreements constitute continuing connected transactions of the Company.

Pursuant to Chapter 14A of the Listing Rules, the transactions to be contemplated under the (i) Lucion Outdoor Advertising Framework Agreement; (ii) Taishan Trust Consulting Framework Agreement; and (iii) Lucion Information Technology Service Framework Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders’ approval requirement, and the transactions to be contemplated under the (i) CNPC Assets Management Trust Framework Agreement; (ii) Lucion Group Trust Framework Agreement; and (iii) Lucion Group Trust Financing Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements. Such transactions were approved at the 2019 First Extraordinary General Meeting held on 28 November 2019. For details of renewal of continuing connected transactions, please refer to the announcement and circular published by the Company on 26 August 2019 and 14 October 2019, respectively.

10.2 Establishment of Fund

On 13 December 2019, the Company entered into the limited partnership agreement with Anhui Luxin Equity Investment Fund Management Company Limited (**“Anhui Luxin Fund Management”**), Shandong High-Tech Venture Capital Co., Ltd. (**“Shandong High-Tech”**), Hefei Industry Investment Guidance Fund Co., Ltd., Anhui Ancheng Chinese Medicine Health Industry Development Fund Co., Ltd. and Anhui Luxin Investment Company Limited (**“Anhui Luxin”**) in relation to the establishment of the Anhui Luxin Wanhe Technology Innovation Entrepreneurship Equity Investment Fund (limited partnership) * (the **“Fund”**) (the **“Limited Partnership Agreement”**). Pursuant to the Limited Partnership Agreement, the Company has agreed to commit a cash contribution of RMB100 million to the Fund, representing 20% of the total capital commitment of the Fund.

As at 13 December 2019, Shandong High-Tech, Anhui Luxin and Anhui Luxin Fund Management are associates of Lucion Group, the controlling shareholder of the Company, and hence they are connected persons of the Company under Chapter 14A of the Listing Rules. The Limited Partnership Agreement constitutes a connected transaction of the Company, and shall be subject to requirements of reporting and announcement. For details of the establishment of the Fund and the Limited Partnership Agreement, please refer to the announcement of the Company dated 13 December 2019.

11. SIGNIFICANT EVENTS

11.1 Capitalisation Issue, Change in Board Lot Size and Change of Registered Capital

According to the authorization of the 2018 Second Extraordinary General Meeting convened on 19 October 2018 by the Company, the Company completed the issue of a total of 2,070,600,000 Shares to Shareholders by way of capitalisation of capital reserve on the basis of 8 new Shares for every 10 existing Shares then, 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 immediately following the completion of Capitalisation Issue increased to 4,658,850,000 Shares, comprising 3,494,115,000 domestic Shares and 1,164,735,000 H Shares. The listing and trading of new H Shares on the Hong Kong Stock Exchange commenced on 9 January 2019. The board lot size of H Shares trading has been changed from 1,000 H Shares to 1,800 H Shares, with effect from 9 January 2019 (the “**Change in Board Lot Size**”). For details about the Capitalisation Issue and the Change in Board Lot Size, please refer to the circular dated 3 September 2018 and the announcement of poll results dated 19 October 2018.

Following the completion of Capitalisation Issue, the issued share capital of the Company increased from RMB2,588,250,000 to RMB4,658,850,000. The Company has received the approval of preparatory group of Shandong Office of the CBIRC in respect of the change of registered capital by way of capitalisation issue, and completed the registration of registered capital change on 17 January 2019; as such, the registered capital of the Company increased from RMB2,588,250,000 to RMB4,658,850,000.

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

11.2 Change in Shareholding of Shareholder

On 11 February 2020, 46,800,000 domestic shares of the Company held by Jinan Energy Investment Co., Ltd. were auctioned by Luxin Group through judicial auction. The transfer of such share has been approved by the Shandong Office of CBIRC on 27 February 2020.

11.3 Change of Shareholding Structure of Controlling Shareholder

The shareholding structure of Lucion Group, the controlling shareholder of the Company, has changed recently.

On 9 January 2020, the registered capital of Lucion Group has increased from RMB3 billion to RMB11.5 billion, and the additional registered capital was fully contributed by Shandong Province Finance Bureau. Upon the capital contribution, the registered capital of Lucion Group was RMB11.5 billion, of which RMB8.5 billion was contributed by Shandong Province Finance Bureau, representing 73.91% of the registered capital of Lucion Group; RMB2.1 billion was contributed by Shandong Provincial State-owned Assets and Administration Commission (“**Shandong SASAC**”), representing 18.26% of the registered capital of Lucion Group; RMB0.6 billion was contributed by Shandong Guohui Investment Co., Ltd., representing 5.22% of the registered capital of Lucion Group; and RMB0.3 billion was contributed by Shandong Provincial Council for Social Security Fund, representing 2.61% of the registered capital of Lucion Group. The controlling shareholder of Lucion Group will be changed from the 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 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 the Change of Shareholding Structure of the Controlling Shareholder under Rule 26 of the Hong Kong Code on Takeovers and Mergers.

Upon the change of shareholding of controlling shareholder, the proportion of shareholder of 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 change of shareholding structure of Lucion Group does not have any impact on the operating activities of the Company.

11.4 Amendments to the Articles of Association of the Company

The Company amended the Articles of Association in accordance with, among other things, the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), comments and instructions raised by the regulatory authorities including the Shandong Office of the CBRC, the Listing Rules, the Mandatory Provisions for the Articles of Association of the Companies to be Listed Overseas (《到境外上市公司章程必備條款》) and the actual situations of the Company. The Company also amended the Articles of Association in light of the subsequent change in the Company's registered capital upon completion of the Capitalisation Issue, the details of which were set out in the circular of the Company dated 3 September 2018. Details of the resolutions regarding the amendments were approved by the Shareholders at the 2018 second extraordinary general meeting of the Company held on 19 October 2019 and completed the approval of Shangdong Office of CBIRC on February 2019.

The Company proposed, in accordance with the amendments to regulations on repurchase of company's share in Article 142 of the Company Law of the People's Republic of China (the "**PRC Company Law**") which was reviewed and approved at the sixth meeting of the Standing Committee of the 13th National People's Congress, and the actual situations of the Company, to amend the contents of the Articles of Association regarding shares repurchase, including supplementing situations where share repurchase of the Company is allowed in accordance with the PRC Company Law, and make corresponding amendments to the duties and responsibilities of general meeting (the "**General Meeting**") and the Board for shares repurchase in the Articles of Association. The Company also proposed that, in order to optimise the composition of the Board, the number of Board seats specified in the Articles of Association be increased from 7 to 9. The above are collectively referred to as "**Proposed Amendments to the Articles of Association**".

The resolution regarding the Proposed Amendments to the Articles of Association was approved at the 2019 first extraordinary general meeting of the Company held on 28 November 2019, and will become effective upon approval of the Proposed Amendments to the Articles of Association by the Shandong Office of CBIRC.

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

11.5 Amendments to the Procedural Rules for the General Meeting and the Procedural Rules for the Board Of Directors

Based on the Proposed Amendments to the Articles of Association, the Company proposes to amend correspondingly the terms of the procedural rules for the general meeting regarding the duties and responsibilities of the general meeting for share repurchase (“**Proposed Amendments to the Procedural Rules for the General Meeting**”), and the terms of the procedural rules for the Board regarding the duties and responsibility for share repurchase and Board seats of the Board (“**Proposed Amendments to the Procedural Rules for the Board of Directors**”).

The resolutions regarding the Proposed Amendments to the Procedural Rules for the General Meeting and Proposed Amendments to the Procedural Rules for the Board of Directors were approved at the 2019 first extraordinary general meeting of the Company held on 28 November 2019, and will become effective upon approval of the Proposed Amendments to the Articles of Association by the Shandong Office of CBIRC.

11.6 Material Legal Proceedings and Arbitration

As at 31 December 2019, the Company, being the plaintiff and applicant, were involved in two 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 RMB325.12 million. These litigations or arbitration 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 2019, the Company, being the defendant, were involved in five pending litigations or arbitration cases, of which the amount in dispute was more than RMB10 million; the value of the litigations and arbitration cases in which we were involved totalled approximately RMB396.38 million. Such litigations cases were mainly contractual dispute.

11.7 Material Assets Acquisition, Sale and Merger

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

11.8 Penalties Imposed on the Company and Directors, Supervisors, Senior Management of the Company

On 22 August 2019, the Jinan Branch of People's Bank of China issued the "Administrative Penalty Decision" (Jin Yin Fu Zi [2019] No. 1) to the Company to warn the Company and impose a fine of RMB30,000 for miscalculation in the data submitted by the Company to the centralized data system and the wealth management and funding trust system of the People's Bank of China.

On 30 December 2019, Shandong Office of CBIRC issued the "Administrative Penalty Decision" (Lu Yin Bao Jian Fa Jue Zi [2019] No. 26) to the Company to impose a fine of RMB700,000 for the failure of performance of information disclosure obligations by the Company in accordance with the law and regulations and violation of individual real estate financing business.

As of the date of this results announcement, the Company has paid the above-mentioned fines and has performed rectifications pursuant to the regulatory requirements.

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

11.9 Provisional Report on Material Issues

On 2 February 2019, the Company issued the "Announcement on the Change of Chairman, General Manager and Registered Capital of Shandong International Trust Co., Ltd." in Shanghai Securities News due to the change of chairman, general manager and registered capital of the Company.

Save as disclosed above, during the Reporting Period, no provisional report in connection with material issues was made by the Company.

11.10 Important Information which The CBIRC and Its Provincial Offices Considered Necessary to Inform Clients and Stakeholders

Save as disclosed in this results announcement, for the year ended 31 December 2019, the Company did not have other important information which the CBIRC and its provincial offices considered necessary to inform clients and stakeholders.

11.11 Rectification Opinion Issued by The CBIRC and Its Local Offices upon Inspection of the Company

In mid to late July 2019, Shandong Office of CBIRC conducted a review of the real estate trust business of the Company in accordance with the unified deployment of the CBIRC and issued the Off-site Supervision Opinion to the Company on 30 August 2019. The Company carried out rectification and implementation in accordance with regulatory requirements and submitted relevant reports to the Shandong Office of CBIRC.

From 4 September to 30 September 2019, Shandong Office of CBIRC, in accordance with the Notice on Launching the Work of Consolidating the Achievements in Rectification of Chaotic Practices and Promoting the Compliance Construction issued by CBIRC, the CBIRC Notice on Publishing the 2019 Key Points of On-site Work for Non-bank Institutions and 2019 On-site Investigation Plan for Non-bank Institutions and relevant requirements, carried out a comprehensive audit review of “Consolidating the Achievements in Rectification of Chaotic Practices” on the Company and issued an inspection opinion on 3 December 2019. The Company formulated targeted rectification plans for the problems raised in such investigation opinion, making substantial progress on rectification works.

From 16 December 2019 to 7 January 2020, the Shandong Office of CBIRC carried out a new round of comprehensive trust risks investigation under the unified deployment of the CBIRC, and issued the “Off-site Supervision Opinions” on 20 February 2020. The Company has formulated relevant risk handling/prevention plans in accordance with the regulatory requirements, and has submitted by installments the relevant reports to the Shandong Office of CBIRC as required.

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

12. EXTRACT OF ANNUAL FINANCIAL STATEMENTS

(All amounts in RMB thousands unless otherwise stated)

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

12.1 Consolidated Statement of Comprehensive income

		Year ended 31 December	
	<i>Note</i>	2019	2018
		<i>(RMB in thousands)</i>	
Fee and commission income	2	1,037,771	891,301
Interest income	3	529,807	647,511
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	4	299,999	(32,274)
Investment income/(loss)	5	14,231	(25,231)
Net gains on disposal of associates held by consolidated structured entities	6	3,062	160,851
Other operating income		1,796	52,348
Total operating income		1,886,666	1,694,506
Interest expenses	7	(137,873)	(192,801)
Staff costs (including directors and supervisors' emoluments)	8	(189,401)	(125,519)
Operating lease payments		(9,070)	(11,661)
Depreciation and amortisation		(10,406)	(8,106)
Change in net assets attributable to other beneficiaries of consolidated structured entities		(475)	(19,754)
Tax and surcharges		(18,917)	(12,978)
Other operating expenses		(62,813)	(73,330)
Auditor's remuneration		(1,792)	(1,792)
Loan impairment charges and other credit risk provision	9	(688,059)	(220,822)
Impairment losses on other assets	10	(13,730)	(33,093)
Total operating expenses		(1,132,536)	(699,856)

		Year ended 31 December	
	<i>Note</i>	2019	2018
		<i>(RMB in thousands)</i>	
Share of profit of investments accounted for using the equity method		<u>123,705</u>	<u>132,197</u>
Profit before income tax		877,835	1,126,847
Income tax expense	11	<u>(213,929)</u>	<u>(254,599)</u>
Net profit attributable to shareholders of the Company		<u>663,906</u>	<u>872,248</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income from investments accounted for using the equity method		<u>436</u>	<u>6,050</u>
Total other comprehensive income, net of tax		<u>436</u>	<u>6,050</u>
Total comprehensive income attributable to shareholders of the Company		<u>664,342</u>	<u>878,298</u>
Basic and diluted earnings per share attributable to the shareholders of the Company <i>(in RMB yuan)</i>	12	<u>0.14</u>	<u>0.19</u>
Total comprehensive income for the year attributable to shareholder of the Company arises from:			
Continuing operations:		664,342	878,298
Discontinued operations:		<u>—</u>	<u>—</u>
		<u>664,342</u>	<u>878,298</u>

12.2 Consolidated Statement of Financial Position

	<i>Note</i>	31 December 2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment		126,522	130,128
Investment properties		148,825	–
Right-of-use assets		1,043	N/A
Intangible assets		5,829	5,701
Investments in associates	13	2,776,345	2,108,781
Financial assets at fair value through profit or loss	17	912,970	1,129,884
Loans to customers	14	5,659,408	3,249,109
Financial investments-amortized cost	15	18,541	32,761
Advance payments		25,326	160,990
Deferred income tax assets		230,110	98,256
Other non-current assets		359,503	362,569
Total non-current assets		10,264,422	7,278,179
Current assets			
Cash and bank balance	16	964,424	1,081,254
Financial assets at fair value through profit or loss	17	611,455	448,987
Financial assets purchased under resale agreements		11,026	95,100
Loans to customers	14	2,143,563	3,907,644
Financial investments-amortized cost	15	60,828	88,714
Trustee's remuneration receivable		214,056	251,825
Other current assets		302,516	460,049
Total current assets		4,307,868	6,333,573
Total assets		14,572,290	13,611,752

		31 December	
	<i>Note</i>	2019	2018
Equity and liabilities			
Share capital	18	4,658,850	2,588,250
Capital reserve	18	143,285	2,231,139
Statutory surplus reserve		845,282	767,319
Statutory general reserve		834,036	756,073
Other reserves		(865)	(1,301)
Retained earnings		3,329,825	3,199,212
Total equity		9,810,413	9,540,692
Liabilities			
Non-current liabilities			
Salary and welfare payable		48,899	62,697
Lease liabilities		346	N/A
Net assets attributable to other beneficiaries of consolidated structured entities		2,647,623	1,735,269
Total non-current liabilities		2,696,868	1,797,966
Current liabilities			
Short-term borrowings		320,000	450,000
Lease liabilities		708	N/A
Salary and welfare payable		61,961	18,738
Net assets attributable to other beneficiaries of consolidated structured entities		757,118	790,494
Income tax payable		186,357	188,854
Dividend payable		4,374	–
Other current liabilities		734,491	825,008
Total current liabilities		2,065,009	2,273,094
Total liabilities		4,761,877	4,071,060
Total equity and liabilities		14,572,290	13,611,752

13. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

General

Shandong International Trust Co., Ltd. (“**Shandong Trust**” or “**the Company**”) is a non-bank financial institution incorporated in Shandong Province, the People’s Republic of China (the “**PRC**”) on 10 March 1987 with the approval from People’s Bank of China (“**PBOC**”) and Shandong Provincial Government. In August 2002, the Company was transformed from a wholly state owned company to a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi (“**RMB**”) 2,000,000,000 (RMB1 each per registered and issued share). On 8 December 2017, the Company completed its public offering and increased its share capital to RMB2,588,250,000. Its shares were listed on The Stock Exchange of Hong Kong Limited on the same day. Pursuant to the resolution of 2018 Special General Meeting on 19 October 2018, the Company converted the capital surplus into ordinary shares in the proportion of 8 shares for every 10 shares held. The Company completed the conversion on 8 January 2019 and the amount of share capital was increased to RMB4,658,850,000.

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

The Company and its consolidated structured entities are collectively referred to as “**the Group**”.

1 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.

Basis of preparation

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

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

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

The Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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 2019 and the relevant impact is set out below:

IFRS 16 (i)	Leases
IFRIC 23	Uncertainty over Income Tax
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015–2017 cycle

Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement of Employee
Amendments to IAS 28	Long-term Interests in Associates and Joint ventures

The adoption of the revised International Financial Reporting Standards have no significant impact on the Group in 2019.

- (i) The Group has adopted IFRS 16 as issued by the IASB with the transition date of 1 January 2019. As permitted under the specific transitional provisions in the standard, the Group did not restate comparative figures. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

IFRS 16

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

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

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

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

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

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

1 January 2019

Operating lease commitments disclosed as at	
31 December 2018	2,445
Less: short-term leases not recognized as a liability	(781)
Less: low value leases not recognized as a liability	–
Discounted using the lessee's incremental borrowing rate of	
at the date of initial application	1,664
Using the lessee's incremental borrowing rate	
as discount rate	6.22%
Lease liability recognised as at 1 January 2019	<u>1,553</u>
Including:	
Current lease liabilities	626
Non-current lease liabilities	<u>927</u>
Right-of-use assets recognised as at 1 January 2019	<u>1,553</u>
Including:	
Properties	<u><u>1,553</u></u>

New standards and interpretations not yet adopted

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

IFRS 17	Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2023)
Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
Amendments to IFRS 3	The Definition of a Business	1 January 2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

IFRS 17

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, an exposure draft of proposed amendments was published on 26 June 2019. On 17 March 2020, the IASB completed its discussion on the amendments to IFRS 17 and tentatively decided that the effective date of IFRS 17 will be deferred to financial periods beginning on or after 1 January 2023.

The Group has not completed its assessment of the impact on the Group’s operating results and financial position of adopting IFRS 17.

Amendments to IAS 1 and IAS 8

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

In particular, the amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Amendments to IFRS 10 and IAS 28

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

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

2 Fee and Commission Income

	Year ended 31 December	
	2019	2018
Fee and commission income		
Trustee’s remuneration	1,037,565	888,535
Others	206	2,766
Total	<u>1,037,771</u>	<u>891,301</u>

3 *Interest Income*

	Year ended 31 December	
	2019	2018
Interest income from:		
Cash and bank balance	4,782	11,692
Loans to customers	502,438	601,806
Investments classified as financial investments- amortized cost	6,746	10,244
Financial assets purchased under resale agreements	8,912	17,888
Contribution to Trust Industry Protection Fund (i)	6,929	5,881
Total	529,807	647,511

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

4. *Net Changes in Fair Value on Financial Assets at Fair Value Through Profit or Loss and Investment in Associates Measured at Fair Value*

	Year ended 31 December	
	2019	2018
Net changes in fair value arising from:		
Financial assets at fair value through profit or loss		
– Mutual funds	112,667	(33,598)
– Trust schemes	18,123	(11,039)
– Unlisted companies	64,883	8,037
– Listed shares	7,355	4,921
– Other asset management products	28,577	(27,889)
	231,605	(59,568)
Investment in associates	68,394	27,294
Total	299,999	(32,274)

5. Investment Income/(Loss)

	Year ended 31 December	
	2019	2018
Dividends income from:		
Financial assets at fair value through profit or loss	275	5,911
Net realised gains/(losses) from:		
Financial assets at fair value through profit or loss	13,956	(31,142)
Total	14,231	(25,231)

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

	Year ended 31 December	
	2019	2018
Shanghai Ruize Investment Co., Ltd. (“ Shanghai Ruize ”)	–	155,357
Tailong Health Industry Investment Company Limited (“ Tailong Health ”)	–	5,494
Liaocheng Liang Hong Property Co., Ltd.	3,033	–
Others	29	–
Total	3,062	160,851

7 *Interest Expense*

	Year ended 31 December	
	2019	2018
Interest accrued on borrowings from China		
Trust Protection Fund Co., Ltd.	30,012	53,259
Interest for placement from banks	352	408
Third-party beneficiaries' interests (i)	107,509	139,134
	<u> </u>	<u> </u>
Total	<u>137,873</u>	<u>192,801</u>

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

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

	Year ended 31 December	
	2019	2018
Salaries and bonuses	155,343	92,832
Pension costs (defined contribution plans)	10,895	11,337
Housing funds	6,462	5,119
Labour union fee and staff education expenses	6,044	2,027
Other social security and benefit costs	10,657	14,204
	<u> </u>	<u> </u>
Total	<u>189,401</u>	<u>125,519</u>

9 *Loan Impairment Charges and Other Credit Risk Provision*

	Year ended 31 December	
	2019	2018
Loans to customers	675,629	178,092
Financial investments-amortized cost	1,261	10,709
Trustee's remuneration receivable	5,687	(1,612)
Others	5,482	33,633
Total	688,059	220,822

10 *Impairment Losses on Other Assets*

	Year ended 31 December	
	2019	2018
Investment in artwork	11,397	25,426
Investments accounted for using the equity method	2,333	7,667
Total	13,730	33,093

11 *Income Tax Expense*

	Year ended 31 December	
	2019	2018
Current income tax	345,783	267,574
Deferred income tax	(131,854)	(12,975)
Total	213,929	254,599

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

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

	Year ended 31 December	
	2019	2018
Profit before income tax	877,835	1,126,847
Tax calculated at a tax rate of 25%	219,459	281,712
Tax effect arising from income not subject to tax (i)	(23,822)	(45,697)
Tax effect of expenses that are not deductible for tax purposes	18,292	18,584
Income tax expense	<u>213,929</u>	<u>254,599</u>

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

12 Basic and Diluted Earnings Per Share

(a) Basic earnings per share

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

	Year ended 31 December	
	2019	2018
		(Restated)
Net profit attributable to shareholders of the Company	<u>663,906</u>	<u>872,248</u>
Weighted average number of ordinary shares in issue	<u>4,658,850</u>	<u>4,658,850</u>
Basic earnings per share	<u>0.14</u>	<u>0.19</u>

(b) *Diluted earnings per share*

For the years ended 31 December 2019 and 2018, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

13 Investments in Associates

The amounts recognised in the consolidated balance sheet are as follows:

	31 December	
	2019	2018
Associates of the Company, measured at equity accounting		
Fullgoal Fund Management Co., Ltd.	658,056	565,995
Taishan Property & Casualty Insurance Co., Ltd.	216,375	207,147
Shandong HOWO Auto Finance Co., Ltd.	198,755	192,474
Dezhou Bank Co., Ltd.	107,888	150,010
First-Trust Fund Management Co., Ltd.	47,469	68,833
Others	81,363	61,760
Gross amount	1,309,906	1,246,219
Less: Impairment allowance	—	—
Associates of the Company, net	1,309,906	1,246,219
Associates of the Company's certain consolidated structured entities, measured at equity accounting		
Shandong Provincial Financial Asset Management Co., Ltd.	620,282	621,044
Tailong Health Industry Investment Company Limited	50,758	52,100
Others	52,591	33,391

	31 December	
	2019	2018
Gross amount	723,631	706,535
Less: Impairment allowance	<u>(10,000)</u>	<u>(7,667)</u>
Associates of the Company's certain consolidated structured entities, net	<u>713,631</u>	<u>698,868</u>
Associates indirectly held by the Group through trust schemes, measured at fair value		
Henan Liang Ding Property Co., Ltd.	153,087	94,650
Huizhou Zhengfeng Property Investment Co., Ltd.	120,000	—
Cangzhou Liang Sheng Property Co., Ltd.	119,087	—
Huangshi Liangsheng Real Estate Development Co., Ltd.	89,600	—
Tianjin Liang Xin Property Co., Ltd.	87,546	—
Tianjin Liang Shun Property Co., Ltd.	72,174	—
Tengzhou Haide Gongyuan Property Co., Ltd.	53,980	—
Nanyang Zhongliang Chengtong Real Estate Co., Ltd.	44,680	—
Shenzhen Qianhai Run Xin Investment Co., Ltd.	12,654	18,900
Liaocheng Liang Hong Property Co., Ltd.	<u>—</u>	<u>50,144</u>
Gross amount	<u>752,808</u>	<u>163,694</u>
Total	<u>2,776,345</u>	<u>2,108,781</u>

14 *Loans to Customers*

(a) *Analysis of loans to customers:*

	31 December	
	2019	2018
Corporate loans-at amortised cost	9,027,180	7,683,391
Interest receivable	53,398	75,340
Less: ECL allowance -Loans	(1,276,128)	(600,424)
ECL allowance -Interest receivable	(1,479)	(1,554)
Loans to customers, net	<u>7,802,971</u>	<u>7,156,753</u>
Presented as:		
Non-current assets	5,659,408	3,249,109
Current assets	<u>2,143,563</u>	<u>3,907,644</u>
Loans to customers, net	<u>7,802,971</u>	<u>7,156,753</u>

(b) *Movements of ECL allowance*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January				
2019	108,968	21,137	470,319	600,424
Provision for impairment	146,063	–	593,381	739,444
Reversal of impairment allowances	(60,400)	–	(1,300)	(61,700)
Transfers:	–	(21,137)	21,137	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(21,137)	21,137	–
EAD, PD and LGD changes (i)	(2,040)	–	–	(2,040)
Loss allowance as at 31 December				
2019	<u>192,591</u>	<u>–</u>	<u>1,083,537</u>	<u>1,276,128</u>
Loss allowance as at 1 January				
2018	118,331	15,904	277,593	411,828
Provision for impairment	83,940	1,744	268,634	354,318
Reversal of impairment allowances	(144,094)	(838)	(9,000)	(153,932)
Transfers:	68,167	10,145	(78,312)	–
<i>Transfer from Stage 1 to Stage 2</i>	(10,145)	10,145	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(1,668)	–	1,688	–
<i>Transfer from Stage 3 to Stage 1</i>	79,980	–	(79,980)	–
Other transfers	(5)	–	11,404	11,399
EAD, PD and LGD changes	(17,371)	(5,818)	–	(23,189)
Loss allowance as at 31 December				
2018	<u>108,968</u>	<u>21,137</u>	<u>470,319</u>	<u>600,424</u>

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

(c) *Movement of principals*

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	5,631,500	676,500	1,375,391	7,683,391
Additions	6,346,850	–	–	6,346,850
Repayments	(4,514,656)	–	(488,405)	(5,003,061)
Transfers:	–	(676,500)	676,500	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(676,500)	676,500	–
Balance as at 31 December 2019	<u>7,463,694</u>	<u>–</u>	<u>1,563,486</u>	<u>9,027,180</u>
Balance as at 1 January 2018	5,386,300	350,000	844,891	6,581,191
Additions	4,306,100	10,500	874,400	5,191,000
Repayments	(3,737,400)	(64,000)	(329,000)	(4,130,400)
Transfers:	(350,900)	380,000	(29,100)	–
<i>Transfer from Stage 1 to Stage 2</i>	(380,000)	380,000	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(70,900)	–	70,900	–
<i>Transfer from Stage 3 to Stage 1</i>	100,000	–	(100,000)	–
Other transfers	<u>27,400</u>	<u>–</u>	<u>14,200</u>	<u>41,600</u>
Balance as at 31 December 2018	<u>5,631,500</u>	<u>676,500</u>	<u>1,375,391</u>	<u>7,683,391</u>

15 Financial Investments-Amortized Cost

(a) Analysis of financial investments-amortized cost:

	31 December 2019	2018
Financial investments-amortized cost, gross (i)	93,297	131,314
Interest receivable	1,777	4,605
Less: ECL allowance – Financial investments-amortized cost	(15,656)	(14,349)
Less: ECL allowance – Interest receivable	(49)	(95)
Financial investments-amortized cost, net	<u>79,369</u>	<u>121,475</u>
Presented as:		
Non-current assets	18,541	32,761
Current assets	<u>60,828</u>	<u>88,714</u>
Financial investments-amortized cost, net	<u>79,369</u>	<u>121,475</u>

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

(b) *Movements of ECL allowance*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January				
2019	1,262	–	13,087	14,349
Provision for impairment	459	–	1,210	1,669
Reversal of impairment allowances	(672)	–	–	(672)
ECL, PD and LGD changes	310	–	–	310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss allowance as at 31 December				
2019	<u>1,359</u>	<u>–</u>	<u>14,297</u>	<u>15,656</u>
Loss allowance as at 1 January				
2018	1,813	1,788	11,404	15,005
Provision for impairment	–	–	13,087	13,087
Reversal of impairment allowances	(2,189)	(155)	–	(2,344)
Transfers:	1,633	(1,633)	–	–
<i>Transfer from Stage 2 to Stage 1</i>	1,633	(1,633)	–	–
Other transfers	5	–	(11,404)	(11,399)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss allowance as at 31 December				
2018	<u>1,262</u>	<u>–</u>	<u>13,087</u>	<u>14,349</u>

(c) *Movement of principals*

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	111,600	–	19,714	131,314
Additions	27,600	–	–	27,600
Repayments	(60,200)	–	(5,417)	(65,617)
Balance as at 31 December 2019	79,000	–	14,297	93,297
Balance as at 1 January 2018	101,567	37,530	65,200	204,297
Additions	51,400	–	–	51,400
Repayments	(40,567)	(10,930)	(30,286)	(81,783)
Transfers:	26,600	(26,600)	–	–
<i>Transfer from Stage 2 to Stage 1</i>	26,600	(26,600)	–	–
Other transfers	(27,400)	–	(15,200)	(42,600)
Balance as at 31 December 2018	111,600	–	19,714	131,314

16 Cash and Bank Balance

(a) *Cash and bank balance*

	31 December 2019	2018
Cash in hand	15	45
Cash at banks	964,409	1,081,209
Total	964,424	1,081,254

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

	31 December 2019	2018
Cash in hand	15	45
Cash at banks	964,409	1,081,209
Total	964,424	1,081,254

17 Financial Assets at Fair Value Through Profit or Loss

	31 December 2019	2018
Equity investments		
Listed shares	47,007	42,482
Unlisted entities	374,347	556,314
Asset management products	178,455	168,603
Mutual funds	564,448	406,505
Investments in trust schemes	264,500	312,858
Investments in Trust Industry Protection Fund	95,668	92,109
	<u>1,524,425</u>	<u>1,578,871</u>
Total	<u>1,524,425</u>	<u>1,578,871</u>
Presented as:		
Non-current assets	912,970	1,129,884
Current assets	611,455	448,987
	<u>611,455</u>	<u>448,987</u>
Financial assets at fair value through profit or loss, net	<u>1,524,425</u>	<u>1,578,871</u>

18 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 2019	2018
Number of shares authorized and issued (i)	4,658,850	2,588,250
	<u>4,658,850</u>	<u>2,588,250</u>
Share capital	<u>4,658,850</u>	<u>2,588,250</u>

- (i) Pursuant to the resolution of 2018 Special General Meeting on 19 October 2018, the Company converted the capital surplus into ordinary shares in the proportion of 8 shares for every 10 shares held. The Company completed the conversion on 8 January 2019 and the amount of share capital was increased to RMB4,658,850,000.

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

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

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

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

As of 31 December 2019, the Group's capital reserve is shown as follows:

	31 December	
	2019	2018
Share premium	122,797	2,193,397
Others	20,488	37,742
Total	<u>143,285</u>	<u>2,231,139</u>

19 Dividends

	Year ended 31 December	
	2019	2018
Dividend declared during the year	<u>377,367</u>	<u>447,766</u>

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

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

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

20 Subsequent Events

The controlling party of Lucion Group, which is the controlling shareholder of the Company, was changed from the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province to Shandong Province Finance Bureau in January 2020. Its ultimate controlling party remains the People's Government of Shandong Province. The Change of the controlling party of the controlling shareholder does not have any impact on the operating activities of the Company.

After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of the results announcement for the year, the Group was still assessing the impact on the financial statements as a result of the COVID-19 outbreak.

Except for the event described above, the Group has no material events happened after 31 December 2019.

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

The Audit Committee has reviewed the accounting principles and conventions adopted by the Company with the senior management of the Company and the Company's external auditors. The Audit Committee has reviewed the annual results for the year ended 31 December 2019.

15. ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 PUBLISHED ON THE HONG KONG STOCK EXCHANGE’S WEBSITE AND THE COMPANY’S WEBSITE

The announcement of annual results for the year ended 31 December 2019 is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.sitic.com.cn). The annual report for the year ended 31 December 2019 which contains all information required by the Listing Rules will be distributed to shareholders and published on the Hong Kong Stock Exchange’s website and the Company’s website in due course.

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

Jinan, the People’s Republic of China
26 March 2020

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