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 2020

The board of directors (the "**Board**" or "**Board of Directors**") 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 2020 (the "**Reporting Period**"). The content of this annual 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 (the "**Audit Committee**"). 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). Where there is any inconsistency between the Chinese version and the English version of this annual results announcement (except for the extracts of annual financial statements), the Chinese version shall prevail.

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	山東國信
Legal name in English	Shandong International Trust Co., Ltd.
Abbreviation	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

	Note	**Year ended 31 December 2020**	2019
		(RMB in thousands)	
Fee and commission income	2	**1,152,419**	1,037,771
Interest income	3	**716,614**	529,807
Net changes in fair value on financial assets at fair value through profit or loss ("**FVPL**") and investments in associates measured at fair value	4	**126,561**	299,999
Investment income	5	**146,181**	14,231
Net gains on disposal of associates	6	**109,920**	3,062
Other operating income		**53,935**	1,796
Total operating income		**2,305,630**	1,886,666
Total operating expenses		**(1,941,533)**	(1,132,536)
Operating profit		**364,097**	754,130
Share of profit of investments accounted for using the equity method	10	**368,874**	123,705
Profit before income tax		**732,971**	877,835
Income tax expense	11	**(105,153)**	(213,929)
Net profit attributable to shareholders of the Company		**627,818**	663,906

2.2 Summary of Consolidated Statement of Financial Position

	Note	As at 31 December **2020**	2019
		(RMB in thousands)	
Total current assets		**6,262,894**	4,307,868
Total current liabilities		**9,066,957**	2,065,009
Total non-current assets		**14,420,927**	10,264,422
Total non-current liabilities		**1,441,740**	2,696,868
Total assets		**20,683,821**	14,572,290
Total liabilities		**10,508,697**	4,761,877
Total equity		**10,175,124**	9,810,413

2.3 Summary of Consolidated Statement of Cash Flows

	Note	Year ended 31 December **2020**	2019
		(RMB in thousands)	
Net cash generated from operating activities		**237,673**	556,354
Net cash generated/(used) in investing activities		**261,455**	(128,186)
Net cash used in financing activities		**(494,628)**	(533,005)
Effect of exchange rate changes on cash and cash equivalents		**611**	(11,993)
Net increase/(decrease) in cash and cash equivalents		**5,111**	(116,830)
Cash and cash equivalents at beginning of the year		**964,424**	1,081,254
Cash and cash equivalents at end of the year	16	**969,535**	964,424

3 MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment Overview

In 2020, under the impact of the COVID-19 pandemic, the global economy experienced the worst recession since World War II. The economy has recovered since the second half of the year, with extremely loose monetary policies and large fiscal stimulus plans implemented by developed economic entities. At the same time, the impact of the pandemic has led to the increase of fiscal sustainable risks and financial risks, which had far-reaching effects on the global economic structure, international trade and investment. In the face of the complicated and severe internal and external situation under the impact of the pandemic, the whole country united together to make concerted effort in coordinating the prevention and control of pandemic, and economic and social development work to achieve significant strategic achievements. The 13th Five-Year Plan came to a fruitful conclusion with the expected victory of building a moderately prosperous society in all aspects. With the stable recovery of economic operation, the sustained development of industrial production, steady rebound of consumption and investment, strong export momentum and overall stable employment situation, China has become the only major economy in the world to achieve positive economic growth in 2020.

China's financial industry fully implemented the decisions and plans of the Central People's Government and the State Council, rose up to the challenges, and took the initiatives to improve the prevention and control in financial services. The Company fully supported the steady recovery of the national economy by carrying out measures for the "stability on six fronts"[1] and "security in six areas"[2] campaigns, further improved the adaptability and flexibility of the financial supply to the real economy, promoted the reduction of financing cost of social security, and created a suitable financial environment to ensure a decisive victory and build a moderately prosperous society in an all-round way.

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1 "Six fronts" are employment, finance, foreign trade, foreign investment, domestic investment and market expectation.

2 "Six areas" are job security, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains and the normal functioning of primary-level governments.

Under the guidance of the regulatory authorities, and according to the general requirements of the overall pandemic prevention and control and economic and social development, the trust industry focused on supply-side structural reform, and adhered to the supporting of implementing major national development strategies, the development of advanced manufacturing industries, the weak links in the economic and social development and the expansion of its business in such as expanding domestic demand, so as to serve the high-quality development of the real economy. The trust industry also facilitated the high quality development of the real economy, and coordinated with the government for the building of a complete domestic demand system, in order to form a new development landscape with domestic circulation as main body and mutual promotion of local and foreign circulation. As at the end of 2020, the balance of trust assets managed by the trust industry in the PRC was RMB20.49 trillion, the scale of trust assets continued to decline steadily, but the trust companies made further improvement on the business structure and continuous enhancement in the proactive management capabilities.

3.2 Business Overview

As a trust company regulated by China Banking and Insurance Regulatory Commission (the "**CBIRC**") (formed by the merger of the China Banking Regulatory Commission (the "**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 market and money markets. The Company has followed a market-oriented approach, closely monitored changes of the economic and market conditions in the PRC to identify market opportunities, and timely and adeptly adjusted its development strategies to proactively grow its business and achieve the "dual drivers" for the trust business and the proprietary business.

In 2020, the Company persisted in focusing on the leading high-quality development of its key businesses, firmly returned to the fundamentals, accelerated the transformation and innovation, upgraded the efficiency of serving the real economy, and maintained an overall stable operation. Firstly, the Company focused on its principle business to enhance foundation and improve quality, and accelerated its transformation and innovation. The Company proactively complied with the regulatory orientation and followed market changes, kept focusing on principle business to enhance foundation and improve quality, continuously enhanced its active management capabilities, continued to develop and strengthen the traditional advantageous business, vigorously developed innovative businesses such as family trusts, bonds and consumer finance to accelerate the layout of standard trust business. The allocation of proprietary assets became more reasonable, and the synergistic effect of the trust business was continuously enhanced. The revenue was achieved in real estate project equity investment, securities market, private equity investment business, etc.. The Company focused on the national and regional development strategy such as Three Critical Missions and new and old kinetic energy conversion, gave full play to the advantages of the synergies of resources, effectively increased regional financial supply, and supported the development of real businesses by introducing social funds, industrial funds, and subscribing for pandemic prevention and control debts. Secondly, the Company continued to expand its fund-raising channels and accelerated the transformation of wealth management. The Company set up a new institutional financial management team and a number of marketing outlets, and preliminarily built to form a "multi-level, wide coverage, and professional" marketing system. The personal wealth management business based on account management has landed smoothly, and substantive steps have been made in the transformation of wealth management. The SITC APP was officially launched, with the electronic signing rate reaching 100%. A number of new consignment channels for financial institutions have been added, and diversified fund-raising channels have been continuously expanded. Thirdly, the Company established a comprehensive risk management line to facilitate the disposal of distressed assets. Combining the new changes and new features of regulatory policies, business and risks, the Company was committed to building a multi-dimensional, multi-level risk management system, continuously improving the risk control, optimising the risk control model, and implementing the strict project management to accelerate the disposal of distressed assets. Fourthly, the Company carried out the construction of trust culture with a more comprehensive internal control compliance system, formulated plans and program for the construction of trust culture, regularly shared legal briefings, and actively organised employees to participate in online classes, public welfare seminars, crime prevention knowledge examinations, trust knowledge contests and other activities, so as to promote the in-depth construction of trust culture. The Company strengthened the supervision mechanism of audit inspectors, enhanced risk investigation and special audits in key areas, and further improved the internal control and compliance system.

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

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

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

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

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

3.2.1 Trust Business

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

Platform to realise sales mobilisation support, built a family trust electronic signing module, completed the reconstruction and upgraded of the asset management system, started the construction of an intelligent risk control system, promoted the automated valuation of the standard product business, and further improved supporting capabilities of information systems.

In 2020, the trust assets under management ("**AUM**") of the Company recorded a year-on-year decrease, while the income from trust business of the Company recorded a year-on-year increase, and the income from actively managed trust in proportion of the fee and commission income of the total income from trust business maintained a steady growth. The AUM of the Company decreased from RMB257,664 million as at 31 December 2019 to RMB248,697 million as at 31 December 2020, and the total number of trusts as at the respective dates were 1,202 and 1,137, respectively. In 2020, the Company achieved income from trust business with an amount of RMB1,155.1 million and indicating a year-on-year increase of 11.1 percentage points. During the Reporting Period, revenue from the actively managed trust amounted to RMB898 million, accounting for 78.0% of the fee and commission income of the total income from trust business and indicating a year-on-year increase of 1.2 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 rights to manage and use trust assets come from the trustors' entrustment. While the rights granted to the Company by the trustors vary from one trust to another, the Company has based on the differences of the Company's roles and responsibilities regarding the management and use of trust assets, classified its trusts into administrative management trusts and actively managed trusts. The actively managed trusts can be further subdivided into financing trusts, and investment trusts.

(1) **Financing trusts:** Under this type of trust, in addition to providing trust administration services for the capital end, the Company is actively involved in the ongoing management and disposal of the trust assets in the asset end, and focus on satisfying the financing needs of its counterparties. The Company's financing trusts provide flexible financial service solutions for real estate development projects, infrastructure projects and other various types of enterprises.

(2) **Investment trusts:** The Company is responsible for or participates in the selection of assets or projects in which the trust assets will be invested in, and the Company performs its own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, the Company is actively involved in the ongoing management and disposal of trust assets, and focused on satisfying the investment, wealth management and succession needs of its trustor clients. The Company's investment trusts include a variety of equity investment trusts, securities investment trusts, indirect investment trusts, family trust and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients.

(3) **Administrative management trusts:** In administrative management trusts, the trustors have the discretion on the management, use and disposal of trust assets. Trustors are responsible for seeking counterparties to the transactions for the proposed trust, performing their own due diligence, selecting the assets or projects in which the trust assets will be invested, and in charge of project management after the establishment of the trust. The Company's roles in administrative management trusts are limited to providing trust administration services and accepting entrustment of trust assets from trustors to provide financing for or invest in projects or enterprises designated by the trustors.

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

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

Note: At the end of 2020, the statistical caliber of certain trust schemes were adjusted in accordance with regulatory requirements. Certain investment trusts were reclassified as financing trusts.

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

	Year ended 31 December			
	2020		2019	
	Revenue	***%***	*Revenue*	*%*
	(Revenue: RMB in millions)			
Financing trusts	**635**	**55.12**	387	37.28
Investment trusts	**263**	**22.83**	410	39.50
Administrative management trusts	**254**	**22.05**	241	23.22
Total	**1,152**	**100.00**	1,038	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 investment and financing services such as industry investment fund and equity investment for companies to satisfy their working capital needs in the general industrial and commercial sectors in the PRC.

Investment Trusts

With investment trusts, the Company provides asset and wealth management services to institutional investors and high-net-worth individuals ("**HNWI**") to satisfy their investment needs. Rapid accumulation of wealth in the PRC has resulted in diversified demands for various forms of investment. As the traditional asset management industry in the PRC is dominated by securities investment fund companies and securities firms, which mainly invest in standardised financial products in capital markets, such as the money market, publicly traded stocks and bonds, the Company believes the flexibility of trusts and the business scope of the trust license enable the Company to offer financial products with unique value to institutional investors and 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 and financial products, to the Company and utilise the institutional advantages of trust arrangements under PRC laws to secure realisation of wealth succession. Due to the increasing wealth of PRC citizens and the rapid increase in number of ultra-high-net-worth individuals ("**UHNWI**"), family trusts became widely recognised by UHNWIs due to the advantage of family trusts in wealth succession, family affairs management, family risk management and tax planning. During the Reporting Period, the family trust business continued to grow rapidly. As at 31 December 2020, the Company's family trust business has signed in aggregate a contract amount of

RMB14.95 billion, of which the trust assets that have actually been delivered amounted to RMB14.525 billion, representing a year-on-year increase of 43.81%, thus continuing to secure a leading position in the industry. Since 2020, the Company actively became the first mover in developing standard family trusts. The Company identified target customers and enhanced customer cohesiveness to expand its customer base and cultivate new profit growth engines for the long-term stability of the Company. The Company's "De Shan Qi Jia Series Family Trust" (德善齊家系列家族信託) was awarded "2020 Best Family Trust Scheme" (2020年度優秀家族信託計劃) by *Securities Times* (《證券時報》), representing that the Company has been fully recognised by the market for its active exploration, research and development and innovation in the family trust business, and its wealth management and financial service abilities, and has been leading the industry. The Company will continue to expand the family trusts product portfolio and strengthen the development of information system to provide clients with high-quality, efficient professional and customised family trust services.

(5) **Discretionary Wealth Management Trusts:** Other than the family trust business, the Company is also developing its private wealth management business. The Company has established certain individual trusts whereby the trustor clients entrust their funds to the Company and allow the Company to allocate the funds into different trust products chosen for them by the Company based on their respective investment needs. The trust agreements normally set forth the general scope of investment as set by the trustors, and the Company is granted with full discretion on allocation of the trust assets. During the Reporting Period, the Company continued to exert effort on developing the customer base for the discretionary wealth management trusts and to improve asset allocation, thus helping customers to realise higher yields. As at 31 December 2020, the Company managed 10 discretionary wealth management trusts, with the AUM reaching approximately RMB1.899 billion.

(6) **Other Trusts:** In addition to the above investment trusts, the Company also established other types of investment trusts, such as charitable trusts, which are products of the Company's active performance for its corporate social responsibility. The Company's charitable trusts enhanced the branding of the Company as its business development model and to integrate the business development model with the Company's family trust business. As at 31 December 2020, the Company managed 7 charitable trusts, with the AUM reaching approximately RMB66.54 million.

In 2020, the "Jiahelu Charitable Trust"(嘉和路慈善信託) established by the Company was awarded "2020 Best Charitable Trust Scheme" (2020年度優秀慈善信託計劃) by *Securities Times* (《證券時報》).

Administrative Management Trusts

Through the administrative management trusts, the Company provides administrative services to the trustors, whilst 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.

3.2.2 Proprietary Business

In 2020, in order to reasonably optimise the allocation of its own funds, accelerate the strategic layout of foreign business, and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the investment and loan linkage mechanism, and provided great support for the transformation and innovation of the "equity + debt" trust business. Secondly, the Company continuously strengthened the investment of venture capital fund, and proactively supported the Shandong's regional economic development and replacement of old growth drivers with new ones in a bid to seek proprietary business transformation and development, and foster new profit growth point. Thirdly, the Company assessed the situation, actively promoted the transformation and development of First-Trust Fund Management Co., Ltd., completed the equity transfer of Sinotruk Finance Co., Ltd., and optimised the layout of financial equity investment. Fourthly, with liquidity being assured, short term operations such as diversified investment, efficient use of liquid funds for short-term operations such as reverse repurchase of government bonds, investment in monetary fund and cash management trust schemes were actively carried out to improve utilisation efficiency of domestic and foreign capitals. Fifthly, the Company further strengthened exchanges and communication with financial enterprises in Hong Kong, and laid a solid foundation for overseas businesses.

The Company recorded the segment income of RMB1,519.4 million from its proprietary business in 2020, representing a year-on-year increase of 56.6%, mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) an increase in net gains on disposal of associates from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income in 2020 was RMB53.9 million (of which RMB51.4 million was government subsidy), and only a small amount of such income was generated in 2019; and (v) an increase in share of profit of investments accounted for using the equity method from RMB123.7 million in 2019 to RMB368.9 million in 2020. The interest income, investment income, net gains on disposal of associates, other operating income and share of profit of investments accounted for using the equity method are partially offset by a decrease in net changes in fair value on financial assets at FVPL and investments in associates measured at fair value from RMB300.0 million in the 2019 to RMB126.6 million in 2020.

Allocation of Proprietary Assets

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

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

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

	As at 31 December	
	2020	2019
	(RMB in thousands)	
Investments in monetary assets	**730,299**	875,904
Deposits at banks	**47,042**	866,904
Other monetary assets	**651,807**	–
Government bonds purchased under agreements to resell	**31,450**	9,000
Securities Investments	**6,048,721**	6,177,811
Investment in equity products	**708,842**	645,436
Listed shares classified as:		
－financial assets at FVPL	**90,395**	47,007
Subtotal	**90,395**	47,007
Mutual funds classified as:		
－financial assets at FVPL	**618,447**	555,880
Subtotal	**618,447**	555,880

	As at 31 December	
	2020	2019
	(RMB in thousands)	
Equity investment in unlisted entities classified as financial assets at FVPL	**–**	42,549
Investment in wealth management products		
Investments in our consolidated trust schemes	**5,132,481**	5,098,350
Investments in our unconsolidated trust schemes and classified as financial assets measured at amortised cost	**–**	1,027
Investment in unconsolidated trust schemes classified as financial assets at FVPL	**104,640**	258,863
Asset management products	**102,758**	174,135
Long-Term Equity Investments	**1,932,383**	1,488,410
Investment accounted for using the equity method	**1,642,703**	1,309,906
Investment classified as financial assets at FVPL	**289,680**	178,504
Proprietary Loans	**993,950**	1,295,271
Trust Industry Protection Fund	**100,116**	95,668
Total	**9,805,469**	9,933,064

Monetary Assets

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

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

	As at 31 December	
	2020	2019
	(RMB in thousands)	
Interest income generated from:		
—Deposit at banks	**4,131**	4,782
—Government bonds purchased under agreements to resell	**6,326**	8,912
Total	**10,457**	13,694

Average investment return of the Company's monetary assets (calculated as the total of investment income (in terms of interest income received), annualised as a percentage of average investment balance in such monetary assets, where appropriate) was 1.5% and 1.3% for the years ended 31 December 2019 and 31 December 2020, respectively.

Securities Investments

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

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

	Year ended 31 December	
	2020	2019
	(RMB in millions, except risk category)	
Risk category of underlying investments		
—Equity products	**High**	High
—Trust schemes	**Medium**	Medium
—Asset management products	**Medium**	Medium
Average investment balance [(1)]		
—Equity products	**677.1**	526.0
—Trust schemes	**5,297.7**	5,730.7
—Asset management products	**138.4**	153.8

Note:

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 28.7% from RMB526.0 million in 2019 to RMB677.1 million in 2020; the average balance of investments in trust schemes decreased by 7.6% from RMB5,730.7 million in 2019 to RMB5,297.7 million in 2020; and the average balance of the Company's investments in asset management products decreased by 10.0% from RMB153.8 million in 2019 to RMB138.4 million in 2020.

Long-Term Equity Investments

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

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

Note: On 14 December 2020, the Company entered into an equity transfer agreement with Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司) to dispose of 45% of the equity interests of First-Trust Fund Management Co., Ltd..

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

	As at 31 December	
	2020	2019
	(RMB in thousands)	
Dividend income generated from:		
—As associate using the equity method	**60,197**	43,355
—Investment categorised as financial assets at FVPL	**6,768**	–
Total	**66,965**	43,355

The average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 3.0% and 3.9% for the years ended 31 December 2019 and 31 December 2020, respectively. The increase in average return on long-term equity investments in 2020 as compared to that of 2019 was primarily due to the increase in dividend income from the associates of the Company in 2020.

Proprietary Loans

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

Trust Industry Protection Fund

According to the *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, trust companies are required to subscribe for a certain amount of the Trust Industry Protection Fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 4.6% from RMB95.7 million as at 31 December 2019 to RMB100.1 million as at 31 December 2020.

3.3 Financial Overview

Consolidated Statement of Comprehensive Income Analysis

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

3.3.1 Results of Operations

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

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

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	
	2020	2019
	(RMB in thousands)	
Fee and commission income:		
Trustee's remuneration	**1,152,151**	1,037,565
Others	**268**	206
Total	**1,152,419**	1,037,771

The Group's fee and commission income in 2020 was RMB1,152.4 million, representing an increase of 11.0% as compared to RMB1,037.8 million in 2019. Such increase was primarily due to an increase in the Group's trustee's remuneration, which was caused by an increase in the average AUM (average of the beginning balance and the ending balance of AUM during the Reporting Period) of the Company in 2020.

Interest Income

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

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

The Group's interest income in 2020 was RMB716.6 million, representing an increase of 35.3% as compared to RMB529.8 million in 2019. Such increase was primarily due to an increase in the size of grant of average daily loans in the consolidated structured entities of interest income recorded by the Group in 2020, and the Group's interest income from loans to customers increased by 38.5% from RMB502.4 million in 2019 to RMB695.9 million in 2020.

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

Net changes in fair value on financial assets at FVPL and investments in associates measured at fair value decreased from RMB300.0 million in 2019 to RMB126.6 million in 2020, primarily due to (i) the decrease in the value of financial assets at FVPL held by the Group; and (ii) the decrease in valuation of associates indirectly held by the Group through consolidated structured entities measured at fair value.

Investment Income

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

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

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

Net Gains on Disposal of Associates

In 2020, the associates held by the specific consolidated structured entities which were accounted for by the Group using the equity method were disposed of, and the Group realised a net gain of RMB109.9 million, only a small amount of such income was generated 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 schemes (after offsetting the impairment losses attributable to such third-party beneficiaries).

The Group's interest expenses in 2020 were RMB620.5 million, increased by 350.1% as compared to RMB137.9 million in 2019, primarily due to an increase in expected returns attributable to third-party beneficiaries of the Group's consolidated financing trust schemes (after offsetting the impairment losses attributable to such third-party beneficiaries).

Staff Costs (including Directors and Supervisors' Emoluments)

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

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

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

Impairment Losses on Financial Assets

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

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

Impairment loss on financial assets of the Group increased by 53.9% from RMB688.1 million in 2019 to RMB1,058.8 million in 2020, which was primarily due to the provision for asset impairment made by the Group based on the principle of prudent nature, caused by the strained liquidity of customers granted loans in stages under the consolidated structured entities of the Group, which was resulted from the influences of macro environment, industry environment and credit environment, together with several rounds of impact of the pandemic in 2020.

Share of Profit of Investments Accounted for Using the Equity Method

The Group's share of profit of investments accounted for using the equity method increased by 198.2% from RMB123.7 million in 2019 to RMB368.9 million in 2020, primarily due to increase in the net profit of certain investees.

Profit before Income Tax and Operating Margin

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

	Year ended 31 December	
	2020	2019
	(RMB in thousands)	
Profit before income tax	**732,971**	877,835
Operating margin [(1)]	**31.8%**	46.5%

Note:

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

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

Income Tax Expense

The Group's income tax expense decreased by 50.8% from RMB213.9 million in 2019 to RMB105.2 million in 2020 primarily due to an increase in tax effect arising from non-taxable income in 2020.

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

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

	Year ended 31 December	
	2020	2019
	(RMB in thousands)	
Net profit attributable to shareholders of the Company	**627,818**	663,906
Net profit margin [(1)]	**27.2%**	35.2%

Note:

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

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

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

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

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

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

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

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

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

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, depreciation and amortisation, tax and surcharges and operating expenses that are related to the Group's trust business.

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

The increase in the segment income from the trust business was mainly due to an increase in the Group's fee and commission income from RMB1,037.8 million in 2019 to RMB1,152.4 million in 2020.

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

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

3.3.6 Proprietary Business

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

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

(1) The increase in the segment income from the proprietary business was mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) an increase in net gains on disposal of associates from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income was RMB 53.9 million in 2020 (of which RMB51.4 million was government subsidy), only a small amount of such income was generated in 2019; and (v) an increase in share of profit of investments accounted for using the equity method RMB123.7 million in 2019

to RMB368.9 million in 2020. The interest income, investment income, net gains on disposal of associates, other operating income and share of profit of investments accounted for using the equity method are partially offset by the decrease in net changes in fair value on financial assets at FVPL and investments in associates measured at fair value from RMB300.0 million in 2019 to RMB126.6 million in 2020.

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

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

3.3.7 *Selected Consolidated Financial Position*

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 position.

Assets

As at 31 December 2019 and 31 December 2020, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB14,572.3 million and RMB20,683.8 million, respectively, of which the total assets of the Company amounted to RMB11,200.6 million and RMB10,974.5 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments – amortised cost, (iv) financial assets at FVPL, (v) cash and bank balances, (vi) trustee's remuneration receivable, and (vii) financial assets purchased under resale agreements. As at 31 December 2020, the above-mentioned major assets accounted for 61.6%, 15.7%, 0.2%, 10.8%, 4.7%, 0.8% and 0.5%, respectively, of the total assets of the Group.

Loans to Customers

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

	As at 31 December	
	2020	2019
	(RMB in thousands)	
Corporate loans - at amortised cost	**14,232,249**	9,027,180
including: issued by the Company	**993,950**	1,571,795
issued by consolidated structured entities	**13,238,299**	7,455,385
Interest receivable	**72,446**	53,398
Less: Expected credit losses allowance – loans	**(1,555,395)**	(1,276,128)
Expected credit losses allowance – interest receivable	**(1,726)**	(1,479)
Loans to customers, net	**12,747,574**	7,802,971
Presented as:		
Non-current assets	**9,641,926**	5,659,408
Current assets	**3,105,648**	2,143,563
Loans to customers, net	**12,747,574**	7,802,971

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

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

Some of the loans granted by the Group's trust schemes to which it made proprietary investment and consolidated into the Group's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 453.7% from RMB1,563.5 million as at 31 December 2019 to RMB8,657.3 million as at 31 December 2020. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2019 and 31 December 2020 were RMB742.5 million and RMB7,282.4 million, respectively.

The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,083.5 million and RMB1,422.6 million for these impaired loans as at 31 December 2019 and 31 December 2020, respectively, representing 69.3% and 16.4% of the gross amount of those loans, respectively. The impairment allowances provided by the Group were provided in accordance with the provisions under IFRS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 17.3% and 60.8% of the Group's gross loans to customers as at 31 December 2019 and 31 December 2020, respectively.

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

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

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

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

Investments in Associates

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

	Equity interest as at 31 December 2020	**As at 31 December**	
		2020	2019
		(RMB in thousands)	
Associates of the Company, measured at equity accounting:			
Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	**16.68%**	**869,824**	658,056
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	**9.85%**	**215,101**	216,375
Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	**10.00%**	**207,775**	198,755
Shandong Luxin New and Old Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership) (山東省魯信新舊動能轉換創投母基金合夥企業(有限合夥))	**26.00%**	**148,739**	78,501
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	**2.37%**	**110,344**	107,888
First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	**45.00%**	**52,410**	47,469
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)	**18.60%**	**35,626**	–

	Equity interest as at 31 December 2020	As at 31 December	
		2020	2019
		(RMB in thousands)	
Anhui Luxin Equity Investment Fund Management Co., Ltd. (安徽魯信股權投資基金管理有限公司)	**25.00%**	**2,884**	2,862
Gross amount		**1,642,703**	1,309,906
Less: Impairment allowance		**–**	–
Subtotal		**1,642,703**	1,309,906
Associates indirectly held by the Group through consolidated structured entities space, measured at equity accounting:			
Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司)	**1.50%**	**674,489**	620,282
Tailong Health Industry Investment Company Limited (太龍健康產業投資有限公司)		**–**	50,758
Others		**71,859**	52,591
Gross amount		**746,348**	723,631
Less: Impairment allowance		**(10,000)**	(10,000)
Subtotal		**736,348**	713,631
Associates indirectly held by the Group through consolidated structured entities, measured at fair value:			
Tengzhou Haide Park Property Co., Ltd (滕州海德公園地產有限公司)	**3.60%**	**151,210**	53,980
Huizhou Zhengfeng Industrial Investment Co., Ltd. (惠州市正豐實業投資有限公司)	**15.20%**	**120,000**	120,000
Cangzhou Liangsheng Property Co., Ltd. (滄州梁生房地產開發有限公司)	**39.00%**	**111,088**	119,087
Nanyang Liangheng Real Estate Co., Ltd. (南陽梁恆置業有限公司)	**49.00%**	**82,320**	–
Tianjin Liangxin Property Development Co., Ltd. (天津梁信房地產開發有限公司)	**40.00%**	**89,047**	87,546

	Equity interest as at 31 December 2020	As at 31 December	
		2020	2019
		(RMB in thousands)	
Huangshi Liangsheng Real Estate Development Co., Ltd. (黃石梁晟房地產開發有限公司)	**28.00%**	**94,179**	89,600
Tianjin Liangshun Property Development Co., Ltd. (天津梁順房地產開發有限公司)	**40.00%**	**70,496**	72,174
Nanyang Zhongliang Chengtong Real Estate Co., Ltd. (南陽中梁城通置業有限公司)	**20.00%**	**49,315**	44,680
Ankang Liangsheng Jiye Property Co., Ltd. (安康梁盛基業置業有限公司)	**20.00%**	**37,840**	–
Yunnan Hongshan City Investment Co., Ltd. (雲南虹山城市投資發展有限公司)	**15.00%**	**30,000**	–
Weifang Hengru Real Estate Co., Ltd. (濰坊恒儒置業有限公司)	**15.00%**	**15,000**	–
Shenzhen Qianhai Run Xin Investment Co., Ltd. (深圳前海潤信投資有限公司)	**30.00%**	**13,234**	12,654
Henan Liang Ding Property Co., Ltd. (河南梁鼎置業有限公司)		**–**	153,087
Subtotal		**863,729**	752,808
Total		**3,242,780**	2,776,345

Financial Assets at FVPL

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

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

The changes in the major composition of the Group's financial assets at FVPL were due to the flexible adjustment of portfolio based on the market conditions by the Group in order to increase investment returns. Financial assets at FVPL increased by 46.7% from RMB1,524.4 million as at 31 December 2019 to RMB2,236.5 million as at 31 December 2020, primarily due to the Group's (i) increase of the investment in bonds; (ii) increase of the investments in mutual funds; (iii) increase of the investments in listed shares; (iv) decrease of the equity investment in unlisted entities; (v) decrease in investment of the trust schemes; and (vi) decrease of the investments in asset management products.

Cash and Bank Balance

As at 31 December 2019 and 31 December 2020, the Group's cash and bank balance amounted to RMB964.4 million and RMB969.5 million, respectively, of which RMB866.9 million and RMB698.8 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank balance of the Group's consolidated trust schemes.

Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable decreased by 22.5% from RMB214.1 million as at 31 December 2019 to RMB165.9 million as at 31 December 2020. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 28 February 2021, 17.7% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Resale Agreements

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

The Group's government bond purchased under reverse repurchase agreements to resell increased by 871.8% from RMB11.0 million as at 31 December 2019 to RMB107.1 million as at 31 December 2020. These changes were due to the flexible adjustment of the business scale of the Group's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Group's government bond purchased under reverse repurchase agreements to resell as at 31 December 2019 and 31 December 2020, respectively.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the *Measures for the Administration of Trust Industry Protection Fund* (《信託業保障基金管理辦法》) issued by the CBRC in December 2014, counterparty clients of the Company's financing trusts should make contributions to the Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pay to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by the Trust

Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts.

The Company recorded the amounts of contribution funds it has paid on behalf of its counterparty clients as contribution to the Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB540.0 million and RMB289.4 million as at 31 December 2019 and 31 December 2020, respectively, among which RMB349.5 million and RMB179.5 million were classified as non-current assets, and RMB190.5 million and RMB109.9 million were classified as current assets. Instead of collecting such amounts from the counterparty clients before the liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. At the end of the Reporting Period, the Company has not encountered any difficulties in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of the Company's financing trusts.

Liabilities

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

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) increased by 177.8% from RMB3,404.7 million as at 31 December 2019 to RMB9,459.8 million as at 31 December 2020. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

Other Current Liabilities

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

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts decreased from RMB296.1 million as at 31 December 2019 to RMB196.0 million as at 31 December 2020.

The Company's deferred trustee's remuneration decreased from RMB47.1 million as at 31 December 2019 to RMB13.9 million as at 31 December 2020.

The *Notice in relation to Value-Added Tax Policies on Asset Management Products* (Cai Shui [2017] No. 56)《關於資管產品增值稅有關問題的通知》(財稅[2017]56號) was promulgated by the Ministry of Finance of the PRC and the State Taxation Administration on 30 June 2017 (the "**Notice**"). The Notice requires that, with effect from 1 January 2018, VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%. The trust plan operated by the Company shall pay the VAT pursuant to the Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 31 December 2020, the outstanding VAT for trusts and the related surcharges amounted to RMB77.1 million.

Off-balance Sheet Arrangements

As at 31 December 2020, the Group did not have any outstanding off balance sheet guarantees nor foreign currency forward contracts.

3.3.8 Trust Assets under Management ("AUM"), Asset Quality and Financial Performance of Consolidated Trust Schemes

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

As at 31 December 2019 and 31 December 2020, the Company had consolidated 58 and 50 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB9,514.2 million and RMB15,220.3 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

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

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

	As at 31 December	
	2020	2019
	(RMB in millions)	
Total assets of the Company	**10,975**	11,201
Total assets of consolidated trust schemes	**15,220**	9,514
Consolidation adjustment	**(5,511)**	(6,143)
Total assets of the Group	**20,684**	14,572

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

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

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

	As at 31 December	
	2020	2019
	(RMB in millions)	
Total equity of the Company	**10,086**	9,762
Consolidation adjustment	**89**	48
Total equity of the Group	**10,175**	9,810

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

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

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

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

Overview

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

3.4.1 Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) 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 of the Company (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.

3.4.2 Factors Affecting Our Results of Operations

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

General Economic and Financial Market Conditions

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

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

Company may increase its business in areas that can counteract the impact of downward economic cycle. There are, however, uncertainties in the Company's ability to effectively respond to changes in general economic and financial market conditions and increase in its innovative business may not be able to offset decrease in its traditional business, and therefore, the trust business will continue to be significantly affected by general economic and financial market conditions in China.

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

Regulatory Environment

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

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

Business Lines and Product Mix

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

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

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 wealth management subsidiaries of commercial 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, wealth management subsidiaries of 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.

3.4.3 Credit Risk Management

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

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

3.4.4 Market Risk Management

Market risk primarily refers to the fluctuation of the fair value or future cash flows of financial instruments caused by the change in market prices, resulting in fluctuation risk due to price risk, interest rate risk and foreign exchange risk. During the Reporting Period, the Company managed such risk mainly through the diversified and carefully selected investment portfolio and stringent investment decision-making mechanism of the Company.

3.4.5 Liquidity Risk Management

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

During the Reporting Period, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserves and financial assets that could be readily convertible into cash. As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. For conditions of the liquidity and financial resources of the Group, please refer to the section headed "3. Management Discussion and Analysis – 3.6 Liquidity and Financial Resources" of this results announcement.

3.4.6 Compliance Risk Management

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

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

3.4.7 Operational Risk Management

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

3.4.8 Reputational Risk Management

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

3.4.9 Other Risk Management

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

3.4.10 Anti-Money Laundering Management

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

The Company established an Anti-Money Laundering Leading Work Group for anti-money laundering management, appointed the General Manager of the Company as the chairman of the group, and the Chief Risk Management Officer who was responsible for legal and compliance matters as the vice chairman 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 PBOC 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 the net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of *Measures for the Administration of Net Capital of Trust Companies* which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBIRC on a quarterly basis.

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

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

3.6 Liquidity and Financial Resources

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

In view of the net current liabilities position, the Directors have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and sources of finance, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the audited consolidated financial statements have been prepared on a going concern basis. For relevant details, please refer to the section headed "13. Notes to Consolidated Financial Statements – 1 Principal Accounting Policies" of this results announcement.

3.7 Future Prospect

The pandemic will remain the most uncertain factor affecting the global economic trend in 2021. Developed economies are facing challenges in the sustainability of macro policies. China's economy has returned to normal and the internal driving force has gradually intensified. With the continuous increase in China's middle-income groups, the rapid accumulation of residents' wealth, and the growing demand for wealth management of HNWIs, trust companies have huge potential for growth. At present, the trust industry is at the critical juncture of transformation and reform. The Company will firmly respond to the call of the regulatory authorities, keep in mind the position of the trustees, continue to strengthen the development of trust culture, accelerate the improvement of active management ability, enhance the professional value of the trustee, grasp the major development opportunities in the economic transformation period, and actively explore new business models and business fields to better serve the real economy and meet the needs of people's pursuit of better life, thereby making a good start for the14th Five-Year Plan with high-quality development.

3.8 Key Tasks For 2021

In 2021, the Company will persist in making progress through steady development, actively comply with regulatory orientation and market changes, further develop the trust culture, and bear in mind the mission of supporting the high-quality development of the real economy and satisfying the people's yearning for a better life. The Company will further motivate endogenous development through institutional reform, comprehensively enhance its information technology support capabilities, comprehensive risk management capabilities, specialised asset management capabilities and integrated management service capability, and accelerated the establishment of a new high-quality development pattern for the Company. The Company intended to focus on commencing the following works in 2021.

Focusing on the leading high-quality development of its key businesses, accelerating business transformation and enhancing synergy efficiency. The Company will adhere to implement the development strategy of "dual drivers and synergy efficiency" for its proprietary business and trust business. Firstly, the Company will speed up the transformation of trust business, steadily enhance its professional investment capability for asset allocation, actively build a new high-quality development pattern that combines both financing and investment with non-standard and standard products. Secondly, the Company will optimise the organisational structure, integrate internal strengths for building the investment-research system and risk control system with the core of "large asset allocation", and comprehensively enhance the standardised product research and development capability and asset allocation capability. Thirdly, the Company will accelerate the development of service trust businesses, such as family trusts, wealth management and charitable trusts based on account management, actively revisit to the fundamentals of trust industry, and deepen the transformation of wealth management. Fourthly, the Company will continue to improve the quality and efficiency of the proprietary business operations. The Company will further enhance the synergy between the proprietary and trust business, increase the expansion of venture capital projects, and continuously optimise the layout of financial equity investment. Fifthly, the Company will fully implement the mission of financial state-owned enterprises and make every effort to serve the economic and social development within the province. The Company will continuously enhance its dominant position of development and regional market share by deeply exploring the regional business resources and effectively expanding the financial supply.

The Company will further improve the outlet layout and team building, and strive to build a more dynamic marketing system. Moreover, the Company will continue to increase marketing outlets, expand marketing team at the right time, strengthen the building of financial management team and business expansion of institutions, improve differentiated sales assessment and incentive system as soon as possible, and actively build a more dynamic customer-centered and market-oriented marketing system. Through "online + offline" dual drivers, we will vigorously develop independent marketing, build a customer self-service one-stop online service platform and a warm offline physical network with excellent customer experience, actively guide customers to invest in net worth products, and orderly promote the construction of series-based products and brand-based wealth management.

The Company will strengthen scientific empowerment, and enhance the supporting and leading role in information technology. Adhering to business-oriented and demand-oriented development and based on the smart trust, the Company will strengthen the development of information technology. The Company will accelerate the construction of intelligent risk control system, build an efficient and reliable risk management data platform, and comprehensively improve the Company's ability to predict, manage and dispose of risks. The Company will complete the upgrade of SITC APP2.0, and launch new functions such as man-machine dual recording and online roadshow to improve the users' experience. The Company will continue to optimise and upgrade the business management system, accelerate the development of standard business management system, rely on FinTech to improve service efficiency, reduce operating costs, and effectively enhance the competitiveness of products and services, thereby providing strong support for the transformation and development of the Company.

The Company will steadily promote the three system reforms to stimulate the internal driving forces of the enterprise. We will continue to optimise the organisational structure and human resources, improve the human resources management system, and actively explore the reform of professional manager system. According to the idea of "specialisation of the headquarters and integration of different places", the Company will optimise and adjust the organisational structure, and effectively stimulate the internal driving forces of corporate development. The Company will comply with the regulatory guidance and the needs of transformation of the enterprise, improve the remuneration assessment system, and effectively enhance the industry competitiveness. The Company will build a scientific and professional mechanism for personnel recruitment, training and assessment, and comprehensively implement the requirements for the reform of three systems.

The Company will continue to improve the risk management and control system and build well-established trustee culture. According to the principle that risks should be "measurable, controllable and bearable", the Company will continue to improve the multi-dimensional and multi-level comprehensive risk management system that matches the business characteristics, and continuously enhance the ability of entrusted management from the whole process of product design, product marketing, due diligence, information disclosure, risk disclosure and post-investment management. The Company will strictly control the accessibility of the project, conduct post-investment/post-loan management of projects, strengthen the management of projects approaching due dates, and achieve early detection, early warning and early disposal of risks. The Company will complete the work of controlling the amount and concentration of various business, strictly manage the liquidity, fully implement the accountability for the disposal of risk projects, and promote the early resolution of risk projects. Pursuant to the relevant requirements of the *Guideline on the Establishment of Trustee Culture of Trust Companies*, the Company will enhance the establishment of trust culture on an ongoing basis so as to improve the professional value of trustees.

4. PROFITS AND DIVIDENDS

The Company's profits for the year ended 31 December 2020 are set out in the section headed "3.Management Discussion and Analysis – 3.3 Financial Overview" in this results announcement.

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

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

5. USE OF PROCEEDS

The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 8 December 2017. A total of 647,075,000 H shares (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.

All proceeds have been settled to the Company's domestic accounts, consolidated with our existing proprietary assets and allocated to different categories of assets, significantly increasing the Company's net capital. As at 31 December 2020, all proceeds have been utilised in accordance with the prospectus of the Company dated 28 November 2017 (the "**Prospectus**").

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

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

Members of the Board of Directors include Mr. Wan Zhong (chairman) and Mr. Yue Zengguang as executive Directors; Mr. Xiao Hua (vice-chairman), Mr. Jin Tongshui and Ms. Wang Bailing as non-executive Directors; Mr. Yen Huai-chiang, Mr. Ding Huiping and Ms. Meng Rujing as independent non-executive Directors.

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

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

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

Changes of Directors

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

Due to work adjustment, Mr. Yue Zengguang resigned as an executive Director of the Company. The Board has approved the resignation of Mr. Yue on 3 February 2021, and his resignation shall take effect upon the approval of the qualification of the new executive Director of the Company by the Shandong Office of CBIRC. Prior to this, Mr. Yue shall continue to perform his duties as an executive Director.

Upon the proposal of the Board, Mr. Fang Hao was elected as the new executive Director of the Company at the 2021 first extraordinary general meeting held on 30 March 2021. The appointment of Mr. Fang will take effect after his qualification has been approved by the Shandong Office of CBIRC.

Changes of Supervisors

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

Changes of Senior Management

Due to work adjustment, Mr. Yue Zengguang resigned as the general manager of the Company. The Board has approved the resignation of Mr. Yue on 3 February 2021, and his resignation shall take effect upon the approval of the qualification of the new general manager of the Company by the Shandong Office of CBIRC. Prior to this, Mr. Yue shall continue to perform his duties as the general manager.

The Board has appointed Mr. Fang Hao as the general manager of the Company on 3 February 2021. The appointment of Mr. Fang will take effect after his qualification has been approved by the Shandong Office of CBIRC.

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 in conducting securities transactions. Upon specific enquiries made by the Company to all of the Directors and Supervisors, each of the Directors and Supervisors has confirmed that they had complied with the required standard as set out in the Model Code during the Reporting Period.

During the Reporting Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting the standards 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

During the Reporting Period, 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 transaction. The transaction was conducted in compliance with the disclosure requirements of Chapter 14A of the Listing Rules.

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

On 14 December 2020, the Company entered into an equity transfer agreement with Shandong Lucion Investment Holdings Group Co., Ltd. (the "**Lucion Group**")(the "**Equity Transfer Agreement**"), pursuant to which the Company agreed to dispose of, and Lucion Group agreed to acquire, 45% equity interest in First-Trust Fund Management Co., Ltd. at a consideration of RMB133,943,300 upon and subject to the terms and conditions of the Equity Transfer Agreement (the "**Equity Transfer**"). Lucion Group is interested in 52.96% of the total issued share capital of the Company, making it the controlling shareholder and a connected person of the Company. Accordingly, the Equity Transfer constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. For details of the Equity Transfer and Equity Transfer Agreement, please refer to the announcement of the Company published on 14 December 2020. As at the date of this results announcement, the Equity Transfer has not been completed.

11. SIGNIFICANT EVENTS

11.1 Change of Shareholding Structure of Controlling Shareholder

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

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

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

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

11.2 Change of Shareholding of Controlling Shareholder

On 11 February 2020, 46,800,000 domestic shares of the Company held by Jinan Energy Investment Co., Ltd. were taken by Lucion Group through judicial auction. The changes in shareholding have been approved by the Shandong Office of CBIRC on 27 February 2020.

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

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

11.3 Amendments to the Articles of Association

In accordance with the relevant requirements of the *Reply of the State Council on the Adjustment of the Notice Period of the General Meetings and Other Matters Applicable to Oversea Listed Companies* (Guo Han [2019] No. 97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019] 97號)) issued by the State Council of the PRC and the *Interim Measures for Equity Management of Trust Companies* (《信託公司股權管理暫行辦法》), the Company amended the relevant articles of articles of association of the Company ("**Articles of Association**") in relation to (i) the notice period of general meeting, the convening procedures and other matters; and (ii) establishment of the related party transaction control committee. The resolution on the amendments to the Articles of Association was considered and approved by the shareholders at the 2019 AGM, the H shareholders class general meeting and the domestic shareholders class meeting of the Company dated 17 June 2020, and became effective upon approval by the Shandong Office of CBIRC on 1 September 2020.

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

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

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

11.5 Material Legal Proceedings and Arbitration

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

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

11.6 Material Assets Acquisition, Sale and Merger

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

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

On 3 August 2020, the Shandong Office of CBIRC issued the *Administrative Penalty Decision* (Lu Yin Bao Jian Fa Jue Zi [2020] No. 24) to the Company to impose a fine of RMB700,000 for the non-compliance of certain projects of the Company in 2016 and the insufficient management of certain employees' behaviour from 2012 to 2016. As at the date of this results announcement, the Company has paid the above fines.

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

11.8 Provisional Report on Material Issues

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

11.9 Important Information which the CBIRC and its Provincial Offices Considered Necessary to Inform Clients and Stakeholders

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

11.10 Rectification Opinion Issued by the CBIRC and its Local Offices upon Inspection of the Company

On 27 October 2020, in accordance with the unified deployment of the CBIRC, the Shandong Office of CBIRC issued the *Notice of the Office of Shandong Office of CBIRC on Carrying out a New Round of Special Self-Inspection of Real Estate Trust Business* (《山東銀保監局辦公室關於開展新一輪房地產信託業務專項自查的通知》) to the Company. The Company carried out the relevant self-inspection work in accordance with the requirements of the notice and submitted the result of the self-inspection to the Shandong Office of CBIRC. From 9 November to 20 November 2020, the Shandong Office of CBIRC conducted an on-site investigation of the self-inspected real estate trust business of the Company and issued the Off-site Supervision Opinion (《非現場監管意見書》) to the Company on 24 December 2020. The Company carried out implementation in accordance with regulatory requirements and submitted relevant reports to the Shandong Office of CBIRC in accordance with regulatory requirements.

Save as disclosed in this 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

	Note	**Year ended 31 December** **2020**	2019
		(RMB in thousands)	
Fee and commission income	2	**1,152,419**	1,037,771
Interest income	3	**716,614**	529,807
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	4	**126,561**	299,999
Investment income	5	**146,181**	14,231
Net gains on disposal of associates	6	**109,920**	3,062
Other operating income		**53,935**	1,796
Total operating income		**2,305,630**	1,886,666
Interest expenses	7	**(620,516)**	(137,873)
Staff costs (including directors and supervisors' emoluments)	8	**(139,254)**	(189,401)
Depreciation and amortisation		**(13,588)**	(10,406)
Change in net assets attributable to other beneficiaries of consolidated structured entities		**(16,575)**	(475)
Tax and surcharges		**(11,317)**	(18,917)
Administrative expenses		**(78,998)**	(71,883)
Auditor's remuneration		**(1,972)**	(1,792)
Impairment losses on financial assets	9	**(1,058,799)**	(688,059)
Impairment losses on other assets		**(514)**	(13,730)
Total operating expenses		**(1,941,533)**	(1,132,536)
Operating profit		**364,097**	754,130
Share of profit of investments accounted for using the equity method	10	**368,874**	123,705

	Note	Year ended 31 December 2020	2019
		(RMB in thousands)	
Profit before income tax		**732,971**	877,835
Income tax expense	11	**(105,153)**	(213,929)
Net profit attributable to shareholders of the Company		**627,818**	663,906
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		**(6,870)**	436
Total other comprehensive income, net of tax		**(6,870)**	436
Total comprehensive income attributable to shareholders of the Company		**620,948**	664,342
Basic and diluted earnings per share attributable to the shareholders of the Company *(in RMB yuan)*	12	**0.13**	0.14
Total comprehensive income for the year attributable to shareholder of the Company arises from:			
Continuing operations		**620,948**	664,342
Discontinued operations		**–**	–
		620,948	664,342

12.2 Consolidated Statement of Financial Position

	Note	31 December 2020	2019
		(RMB in thousands)	
ASSETS			
Non-current assets			
Property, plant and equipment		**122,135**	126,522
Investment properties		**145,139**	148,825
Right-of-use assets		**680**	1,043
Intangible assets		**13,672**	5,829
Investments in associates	13	**3,242,780**	2,776,345
Financial assets at fair value through profit or loss	17	**679,519**	912,970
Loans to customers	14	**9,641,926**	5,659,408
Financial investments-amortized cost	15	**50,288**	18,541
Advance payments		**20,097**	25,326
Deferred income tax assets		**315,759**	230,110
Other non-current assets		**188,932**	359,503
Total non-current assets		**14,420,927**	10,264,422
Current assets			
Cash and bank balance	16	**969,535**	964,424
Financial assets at fair value through profit or loss	17	**1,556,937**	611,455
Financial assets purchased under resale agreements		**107,147**	11,026
Loans to customers	14	**3,105,648**	2,143,563
Financial investments-amortized cost	15	**–**	60,828
Trustee’s remuneration receivable		**165,875**	214,056
Other current assets		**357,752**	302,516
Total current assets		**6,262,894**	4,307,868
Total assets		**20,683,821**	14,572,290

	Note	31 December 2020	2019
		(RMB in thousands)	
Equity and liabilities			
Share capital	18	**4,658,850**	4,658,850
Capital reserve	18	**143,285**	143,285
Statutory surplus reserve		**903,941**	845,282
Statutory general reserve		**892,695**	834,036
Other reserves		**(7,735)**	(865)
Retained earnings		**3,584,088**	3,329,825
Total equity		**10,175,124**	9,810,413
Liabilities			
Non-current liabilities			
Salary and welfare payable		**24,157**	48,899
Lease liabilities		**122**	346
Net assets attributable to other beneficiaries of consolidated structured entities		**1,417,461**	2,647,623
Total non-current liabilities		**1,441,740**	2,696,868
Current liabilities			
Short-term borrowings		**100,000**	320,000
Lease liabilities		**573**	708
Salary and welfare payable		**85,876**	61,961
Net assets attributable to other beneficiaries of consolidated structured entities		**8,042,296**	757,118
Income tax payable		**31**	186,357
Dividend payable		**–**	4,374
Other current liabilities		**838,181**	734,491
Total current liabilities		**9,066,957**	2,065,009
Total liabilities		**10,508,697**	4,761,877
Total equity and liabilities		**20,683,821**	14,572,290

13. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB thousands unless otherwise stated)

General

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

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

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

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

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. The financial statements are for the Group consisting of the Company and its consolidated structured entities.

1.1 Basis of preparation

(a) Compliance with IFRS and HKCO

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

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

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.

(b) Going concern basis

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

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

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

The Group ordinarily has discretion to provide liquidity or other support to trust schemes it established and managed should they have liquidity issues in repaying their investors upon respective maturity. In reaching its decision, the Group takes into consideration various factors including the potential reputational implications to the Group, relationships with investors, as well as the likelihood of ultimately recovering payments from the underlying assets of the trust schemes. In February and March 2021, the Group acquired from another trust scheme it managed the rights to certain defaulted loans to the Real Estate Loan Group at face value of RMB 2,000 million. The acquisition was partially financed by interest bearing borrowings from China Trust Protection Fund Co., Ltd. amounting to RMB 1,600 million that fall due in February and March 2022.

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

a. The Group holds active discussions with the Real Estate Development Group and is closely monitoring the development progress of the underlying real estate projects to ensure that proceeds from the sale of properties are used for the repayment of the Real Estate Loans by establishing arrangements such as jointly controlled bank accounts.

b. The Group will continue to explore with other third-party financial institutions, where necessary, the refinancing of trust schemes established and managed by the Group.

c. Under the "Interim Measures for the Administration of Stock Rights of Trust Companies" promulgated by the China Banking and Insurance Regulatory Commission effective from 1 March 2020 and as set out in the Articles of Association of the Company, Lucion Group as the parent company of the Company has an obligation to offer necessary financial support upon the request of the Company in the event of liquidity difficulties.

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

- Acquiring investor stakes in, or the underlying assets of, trust schemes established and managed by the Group;

- Supporting investees of such trust schemes to restructure their financing arrangements; and

- Injection of share capital into or direct financing to the Company.

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

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

1.1.1 New and amended standards adopted by the Group

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

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

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

1.1.2 New standards and interpretations not yet adopted

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

2 *Fee and Commission Income*

	Year ended 31 December 2020	2019
Trustee's remuneration	**1,152,151**	1,037,565
Others	**268**	206
Total	**1,152,419**	1,037,771

3 *Interest Income*

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

(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 Investments in Associates Measured at Fair Value*

	Year ended 31 December 2020	2019
Net changes in fair value arising from:		
Financial assets at fair value through profit or loss		
– Mutual funds	**152,775**	112,667
– Trust schemes	**(20,971)**	18,123
– Unlisted companies	**20,424**	64,883
– Listed shares	**20,422**	7,355
– Bonds	**(78,337)**	–
– Other asset management products	**9,782**	28,577
	104,095	231,605
Investments in associates	**22,466**	68,394
Total	**126,561**	299,999

5 Investment Income

	Year ended 31 December	
	2020	2019
Dividends income from:		
Financial assets at fair value through profit or loss	**6,768**	275
Net realised gains from disposal of:		
Financial assets at fair value through profit or loss	**139,413**	13,956
Total	**146,181**	14,231

6 Net Gains on Disposal of Associates

	Year ended 31 December	
	2020	2019
Shandong Provincial Financial Asset Management Co., Ltd. ("**Shandong AMC**") *(i)*	**54,882**	–
Henan Liang Ding Property Co., Ltd	**55,038**	–
Liaocheng Liang Hong Property Co., Ltd	**–**	3,033
Others	**–**	29
Total	**109,920**	3,062

(i) The Group's share percentage in an associate, Shandong Provincial Financial Asset Management Co., Ltd. ("**Shandong AMC**") was diluted from 7.24% to 1.50% with Shandong AMC's capital increase in 2020. Shandong AMC continues to be recognised as associate as the Group has one seat on its board of directors. The change of the Group's share in the net assets of the associate amounting to RMB54,882 thousand were recognised in profit or loss.

7 Interest Expense

	Year ended 31 December	
	2020	2019
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	**14,017**	30,012
Interest for placement from banks	**80**	352
Third-party beneficiaries' interests *(i)*	**606,370**	107,509
Others	**49**	–
Total	**620,516**	137,873

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

8 Staff Costs (Including Directors and Supervisors' Emoluments)

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

9 Impairment Losses on Financial Assets

	Year ended 31 December	
	2020	2019
Loans to customers	**1,075,066**	675,629
Financial investments-amortized cost	**(95)**	1,261
Trustee's remuneration receivable	**(626)**	5,687
Others	**(15,546)**	5,482
Total	**1,058,799**	688,059

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

	Year ended 31 December	
	2020	2019
Fullgoal Fund Management Co., Ltd.	**273,438**	135,487
Others	**95,436**	(11,782)
Total	**368,874**	123,705

11 *Income Tax Expense*

	Year ended 31 December	
	2020	2019
Current income tax	**190,802**	345,783
Deferred income tax	**(85,649)**	(131,854)
Total	**105,153**	213,929

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

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

	Year ended 31 December	
	2020	2019
Profit before income tax	**732,971**	877,835
Tax calculated at a tax rate of 25%	**183,242**	219,459
Tax effect arising from income not subject to tax *(i)*	**(80,079)**	(23,822)
Tax effect of expenses that are not deductible for tax purposes	**1,990**	18,292
Income tax expense	**105,153**	213,929

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

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	
	2020	2019
Net profit attributable to shareholders of the Company	**627,818**	663,906
Weighted average number of ordinary shares in issue	**4,658,850**	4,658,850
Basic earnings per share	**0.13**	0.14

(b) Diluted earnings per share

For the years ended 31 December 2020 and 2019, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

13 Investments in Associates

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

	31 December	
	2020	2019
Associates of the Company, measured at equity accounting		
Fullgoal Fund Management Co., Ltd.	**869,824**	658,056
Taishan Property & Casualty Insurance Co., Ltd.	**215,101**	216,375
Shandong HOWO Auto Finance Co., Ltd.	**207,775**	198,755
Shandong LuXin Xinjiu Kinetic Energy Conversion Venture Capital Parent Fund (limited partnership)	**148,739**	78,501
Dezhou Bank Co., Ltd.	**110,344**	107,888
First-Trust Fund Management Co., Ltd.	**52,410**	47,469
Tailong Health Industry Investment Company Limited ("**Tailong Health**")	**35,626**	–
Anhui Luxin Equity Investment Fund Management Co., Ltd.	**2,884**	2,862
Gross amount	**1,642,703**	1,309,906
Less: Impairment allowance	**–**	–
Subtotal	**1,642,703**	1,309,906
Associates indirectly held by the Group through consolidated structured entities, measured at equity accounting		
Shandong AMC	**674,489**	620,282
Tailong Health	**–**	50,758
Others	**71,859**	52,591
Gross amount	**746,348**	723,631
Less: Impairment allowance	**(10,000)**	(10,000)
Subtotal	**736,348**	713,631

	31 December 2020	2019
Associates indirectly held by the Group through consolidated structured entities, measured at fair value		
Tengzhou Haide Park Property Co., Ltd.	**151,210**	53,980
Huizhou Zhengfeng Industrial Investment Co., Ltd	**120,000**	120,000
Cangzhou Liangsheng Property Co., Ltd.	**111,088**	119,087
Nangyang Liangheng Real Estate Co., Ltd.	**82,320**	–
Tianjin Liangxin Property Development Co., Ltd.	**89,047**	87,546
Huangshi Liangsheng Real Estate Development Co., Ltd	**94,179**	89,600
Tianjin Liangshun Property Development Co., Ltd.	**70,496**	72,174
Nanyang Zhongliang Chengtong Real Estate Co., Ltd	**49,315**	44,680
Ankang Liangsheng Jiye Property Co., Ltd	**37,840**	–
Yunan Hongshan City Investment Co., Ltd.	**30,000**	–
Weifang Hengru Real Estate Co., Ltd.	**15,000**	–
Shenzhen Qianhai Run Xin Investment Co., Ltd.	**13,234**	12,654
Henan Liang Ding Property Co., Ltd.	**–**	153,087
Subtotal	**863,729**	752,808
Total	**3,242,780**	2,776,345

14 Loans to Customers

(a) Analysis of loans to customers:

	31 December **2020**	2019
Corporate loans-at amortised cost	**14,232,249**	9,027,180
Including: issued by the Company	**993,950**	1,571,795
issued by consolidated structured entities	**13,238,299**	7,455,385
Interest receivable	**72,446**	53,398
Less: ECL allowance -Loans	**(1,555,395)**	(1,276,128)
ECL allowance -Interest receivable	**(1,726)**	(1,479)
Loans to customers, net	**12,747,574**	7,802,971
Presented as:		
Non-current assets	**9,641,926**	5,659,408
Current assets	**3,105,648**	2,143,563
Loans to customers, net	**12,747,574**	7,802,971

(b) Movement of corporate loans

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

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

(i) The addition of Stage 3 corporate loans was a result of the Group's consolidation of a trust scheme in 2020.

(ii) In December 2020, the Group disposed of certain impaired loans with the principal amount of RMB757,948 thousand, with 100% ECL allowance had been provided, to Shandong AMC at a total consideration of zero. The Group de-recognised these loans upon disposal. The disposal did not result in any gain or loss in 2020.

(c) Movements of ECL allowance-Loans

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

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

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

15 *Financial Investments-Amortized Cost*

(a) *Analysis of financial investments-amortized cost:*

	31 December **2020**	2019
Financial investments-amortized cost, gross	**65,897**	93,297
Interest receivable	**–**	1,777
Less: ECL allowance – Financial investments-amortized cost	**(15,609)**	(15,656)
ECL allowance – Interest receivable	**–**	(49)
Financial investments-amortized cost, net	**50,288**	79,369
Presented as:		
Non-current assets	**50,288**	18,541
Current assets	**–**	60,828
Financial investments-amortized cost, net	**50,288**	79,369

(b) *Movement of principals*

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

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

(c) Movements of ECL allowance

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

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

16 Cash and Bank Balance

(a) Cash and bank balance

	31 December	
	2020	2019
Cash in hand	**–**	15
Cash at banks	**317,728**	964,409
Other monetary assets	**651,807**	–
Total	**969,535**	964,424

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

	31 December	
	2020	2019
Cash in hand	**–**	15
Cash at banks	**317,728**	964,409
Other monetary assets	**651,807**	–
Total	**969,535**	964,424

17 *Financial Assets at Fair Value through Profit or Loss*

	31 December **2020**	2019
Equity investments		
Listed shares	**90,395**	47,007
Unlisted entities	**289,680**	374,347
Asset management products *(i)*	**107,077**	178,455
Mutual funds	**618,447**	564,448
Bonds	**886,168**	–
Investments in trust schemes	**129,436**	264,500
Investments in Trust Industry Protection Fund *(ii)*	**115,253**	95,668
Total	**2,236,456**	1,524,425
Presented as:		
Non-current assets	**679,519**	912,970
Current assets	**1,556,937**	611,455
Financial assets at fair value through profit or loss, net	**2,236,456**	1,524,425

(i) The amounts mainly represent the Group's investments in certain asset management products managed by third party financial institutions such as banks and security companies in the PRC.

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

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

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

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

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

18 Share Capital and Capital Reserve

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

	31 December	
	2020	2019
Number of shares authorized and issued	**4,658,850**	4,658,850
Share capital	**4,658,850**	4,658,850

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

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

Capital reserve can be 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 2020, the Group's capital reserve is shown as follows:

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

19 Dividends

	Year ended 31 December	
	2020	2019
Dividend declared during the year	**256,237**	377,367

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

In accordance with a resolution of the board meeting on 31 March 2021, the Board of Directors proposed to appropriate the Company's net profit for the year ended 31 December 2020 to the statutory surplus reserve in the amount of RMB58,659 thousand, appropriations RMB58,659 thousand to the statutory general reserve.

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

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

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

20 Consolidated Structured Entities

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

At 31 December 2020, the number of consolidated trust schemes established and managed by the Company were 50 (31 December 2019: 58) and the total volume of consolidated trust schemes amounted to RMB16,918 million (31 December 2019: RMB9,212 million).

For trust schemes that may not be able to realise payments from underlying investments in accordance with the due date set out in the original contract (the "**Distressed trusts**"), the Group ordinarily has the discretion to provide liquidity or other support, after evaluating various factors including the potential reputational implications to the Group, relationships with investors, as well as the likelihood of ultimately recovering payments from the underlying assets of the trust schemes. As soon a Distressed trust meets the criteria of a consolidated structured entity, it will be consolidated by the Group. As at 31 December 2020, total assets of such Distressed trusts amounted to RMB7,624 million (31 December 2019: RMB1,152 million), and impairment allowances of RMB1,304 million have been made (31 December 2019: RMB753 million).

Included in the consolidated structure entities, there is a newly consolidated trust scheme (the "**Trust Scheme**") with current liabilities amounting to RMB5,208 million due to the beneficiaries (the "**New Beneficiaries**") of the Trust Scheme that fall due in May and June 2021. The underlying assets of the Trust Scheme are loans to customers as non-current assets with a principal amount of RMB7,000 million and a net carrying value of RMB5,974 million after allowance for expected credit loss as at 31 December 2020. As at 1 January 2020, the Group had established a trust scheme with investments from beneficiaries (the "**Original Beneficiaries**") of RMB7,000 million and underlying assets (the "**Real Estate Loans**") made to project development subsidiaries of a group (the "**Real Estate Development Group**") of RMB7,000 million. The Real Estate Loans are secured by land use rights and properties under construction associated with the projects, the share capital of the aforesaid project development subsidiaries as well as guarantees from the ultimate beneficiary owners of and other companies within the Real Estate Development Group. As a result of delays in the development of the projects, attributed to the COVID-19 pandemic and other factors, the Real Estate Development Group defaulted on the repayment of the principal and interest accrued on the Real Estate Loans that were due in May and June 2020 and remained overdue as at 31 December 2020.

In order to repay the Original Beneficiaries in respect of the above loans, the Trust Scheme was established in May 2020 with investments from the New Beneficiaries of RMB5,000 million together with two investments from the Group of RMB1,000 million each in different stages and totally amounting to RMB2,000 million. In the event that the Real Estate Development Group continues to be unable to repay these Real Estate Loans in May and June 2021, the Group will need to provide financial support in order to repay the amounts due to the New Beneficiaries. After considering the exposure to variability of returns from the Trust Scheme, the Group consolidated the Trust Scheme in 2020.

Based on the expected discounted cash flows mainly based on the realisation of the value of land use rights, after taking into account multiple forward looking scenarios regarding the valuation and realisation period of such land use rights, the Group has provided for a credit loss allowance amounting to RMB1,026 million for the Real Estate Loans in the Trust Scheme.

The Group's credit loss allowance is supported by a multiple scenario model with realisation periods of 1.5 years, 2 years and 2.5 years with a probability weighting of 10%, 80% and 10%, respectively. As significant judgements are involved in estimating such realisation periods, a sensitivity analysis has also been performed on these assumptions. If the realisation period is extended by 0.5 year in each of the scenarios considered, the credit loss allowance will increase by RMB236 million. If the realisation period is shortened by 0.5 year in each of the scenarios, the credit loss allowance will decrease by RMB246 million.

21 Credit Commitments, Other Commitments and Contingent Liabilities

Legal proceedings

The Group believes the possibility of the loss of legal proceedings that remained outstanding as at 31 December 2020, which the Group was an interested party, was low. Therefore no provision was required.

In 2020, the Company was sued by Qixing Group Co., Ltd. ("**Qixing Group**") and Shandong Qixing Real Estate Company ("**Shandong Qixing**"). According to the first and second instance judgments by Zouping People's Court ("**Zouping Court**") and Binzhou Intermediate People's Court ("Binzhou Intermediate Court"), the Company should pay Shandong Qixing and Qixing Group with an amount totalling RMB 167.82 million and related interest. The Company filed a lawsuit with Shandong Province Higher People's Court ("**Shandong Higher Court**") on 28 October, 2020, requested to revoke the above judgments of Zouping Court and Binzhou Intermediate Court, to amend the judgment in accordance with the law, and to dismiss all claims of Qixing Group and Shandong Qixing or sent back for retrial. Shandong Higher Court ruled on 18 December, 2020 and 11 January, 2021, that the evidence found by Zouping Court and Binzhou Intermediate Court was insufficient and their applied law was incorrect. The above-mentioned cases are now arraigned by the Shandong Higher Court. The execution of the original judgments is suspended during the retrial.

As at 31 December 2020, Zouping court has deducted RMB69.38 million from the Company's bank account.

Based on the above facts and relevant legal provisions, the Company believes that the claims of Shandong Qixing and Qixing group have no facts and legal basis and should be rejected in accordance with the law. Therefore, the Company has not accrued the estimated liabilities for the case. For the above transferred funds by Zouping court, the Company accounts as other receivables.

22 Subsequent Events

In February and March 2021, the Group acquired from another trust scheme it managed the rights to certain defaulted loans to the same "Real Estate Development Group" at face value of RMB 2,000 million with interest at 11.04% per annum. The acquisition was partially financed by interest bearing borrowings from China Trust Protection Fund Co., Ltd. amounting to RMB 1,600 million that fall due in February and March 2022. These borrowings are guaranteed by Lucion Group, of which RMB 600 million is also collateralized by the Group's investments in certain trust schemes.

14. THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and conventions adopted by the Company with the management of the Company and the Company's external auditors. The Audit Committee has reviewed the annual results for the year ended 31 December 2020.

15. ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 PUBLISHED ON THE HONG KONG STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

The annual results announcement for the year ended 31 December 2020 is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.sitic.com.cn). The annual report for the year ended 31 December 2020 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
31 March 2021

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