

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules during the Year except for the following deviation from the Code provisions:

- Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the Year, no individual has held the title of chief executive in the Company. The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operation and powers of execution is vested in the Board itself.
- Code provision E.1.2 stipulates that the chairman of the Board shall attend the annual general meeting of the Company. Due to the COVID-19 travel restrictions imposed this year and the need to attend other business matters that had been arranged in advance, Mr. Xu Wen, who had served as a director of the Company during the year ended 31 December 2020, did not attend the Company’s annual general meeting held on 15 June 2020.

## BOARD OF DIRECTORS

The Board determines the overall strategies of the Group, monitors and controls operating and financial performance, analyses and formulates strategies to manage risks in pursuit of the Group’s strategic objectives. The Board also decides on matters such as annual and interim results, dividend policy, director appointments, and significant changes in accounting policy, material contracts and major investments. The Board has delegated the authority and responsibility of overseeing the Group’s day-to-day operations to management executives.

### Composition of the Board

During the Year and up to the date of this annual report, the Board comprises the following executive Directors and independent non-executive Directors.

#### Executive Directors:

Mr. Xu Wen (*Chairman*)

Mr. Huang Xiangui

Mr. Wan Chao (appointed with effect on 16 June 2020)

Mr. Chen Cong (appointed with effect on 20 January 2021)

Mr. Liu Yongzhuo (resigned with effect on 26 June 2020)

Mr. Zhuo Yueqiang (resigned with effect on 16 June 2020)

#### Independent non-executive Directors:

Mr. Chau Shing Yim, David

Mr. Nie Zhixin

Mr. Chen Haiquan

Professor Shi Zhuomin

Biographical details of current members of the Board are set out on page 27 to page 29 of this annual report.

## CORPORATE GOVERNANCE REPORT (Continued)

During the Year, the Company has at all times met the requirements of Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and at least one independent non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

Each of the executive Directors has entered into a service contract with the Company for a period of three years. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years. The Directors are subject to retirement by rotation pursuant to the bye-laws of the Company (the “**Bye-laws**”). In accordance with the Bye-laws, at every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement at least once every three years.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules. The Board was satisfied with the independence of the independent non-executive Directors.

### Board Diversity

The Board has established a set of board diversity policy setting out the approach to achieve diversity on the Board with the aims of enhancing Board effectiveness and corporate governance as well as achieving the Group’s business objectives and sustainable development. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service. The current Board consists of a diverse mix of Board members who match the requirement of the business of the Company.

### Roles and Duties

The Board is in charge of formulating strategic business development, reviewing and monitoring the business performance of the Group, approving major funds allocation and investment proposals as well as preparing and approving the financial statements of the Group. The Board also gives clear instructions on the authority delegated to the management in relation to the administration and management of the Group.

The Board has the following duties and responsibilities in respect of the corporate governance functions of the Company:

- (a) to develop and review the Company’s policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company’s policies and practices in compliance with legal and regulator requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to review the Company’s compliance with the Code and disclosures in the Corporate Governance Report in the annual report of the Company.

During the Year and up to the date of this report, the Board has performed the corporate governance duties.

## CORPORATE GOVERNANCE REPORT (Continued)

The Board may delegate the corporate governance duties to a committee of the Board. The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate in the meetings either in person, by proxy, or by means of electronic communications. Four Board meetings were convened by the Company during the Year.

The Company has set up the audit committee, remuneration committee and nomination committee (as detailed in the following section) in respect of the Board.

The attendance of individual Directors at the Board meetings, the meetings of the three committees and general meetings held during the Year is set out below:

	No. of meetings attended/held				
	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
<b>Executive Directors</b>					
Mr. Xu Wen ( <i>Chairman</i> )	4/4	—	1/1	1/1	0/1
Mr. Huang Xiangui	4/4	—	—	—	0/1
Mr. Wan Chao	4/4	—	—	—	0/1
Mr. Chen Cong	4/4	—	—	—	0/1
<b>Independent non-executive Directors</b>					
Mr. Chau Shing Yim, David	4/4	2/4	1/1	—	1/1
Mr. Nie Zhixin	4/4	2/4	1/1	1/1	0/1
Mr. Chen Haiquan	4/4	2/4	—	1/1	0/1
Professor Shi Zhuomin	4/4	—	—	—	0/1

### Directors' Training

All Directors have complied with the Code provisions in relation to continuous professional development. This has involved various forms of activities including attending a presentation given by an external professional party in respect of the new regime on disclosure, reading materials relevant to corporate governance and other regulatory requirements.

The Company has an induction policy for every new member of the Board. On appointment, the new member will receive an induction which includes meetings with members of the Board introducing the Group's business segments in which the Group operates, the roles and responsibilities as a Director and the requirements under the Listing Rules in respect of the Code provisions in relation to continuous professional development.

The Company regularly updates Directors on the developments in respect of the Listing Rules and applicable regulatory requirements, to enhance their awareness of good corporate governance practices.

During the Year, all of the Directors have attended training sessions. The company secretary of the Company has also complied with the 15 hours training requirements under Rule 3.29 of the Listing Rules.

### AUDIT COMMITTEE

As at 31 December 2020, the audit committee comprised three members, namely, Mr. Chau Shing Yim, David, chairman of the audit committee, Mr. Nie Zhixin and Mr. Chen Haiquan all being independent non-executive Directors. The audit committee adopted the written terms of reference which were basically the same as those set forth in code provision C.3.3 of the Code. The audit committee is principally responsible for reviewing the effectiveness of the Company's internal audit function, reviewing and supervising the Group's financial reporting process, risk management and internal control system and providing advice and recommendations to the Board.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2020.

During the Year, two meetings have been held by the audit committee to approve the audited financial statements for the Year and to review interim financial statements (including accounting policies and practices adopted) of the Group for the Year, and recommended such financial statements to the Board for approval. The record of attendance of members at such meetings is set out on page 32 of this annual report.

On 29 March 2021, the audit committee met to review the risk management and internal control systems of the Group, the financial statements and other reports for the Year and discuss any significant audit matters with the Company's external auditor and the senior management before recommending them to the Board for consideration and approval. The audit committee recommended the Board in relation to the re-appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending 31 December 2021 at the annual general meeting of the Company.

### REMUNERATION COMMITTEE

The majority of the members of the remuneration committee were independent non-executive Directors. As at 31 December 2020, the members of the remuneration committee included Mr. Chau Shing Yim, David, the chairman of the remuneration committee, Mr. Nie Zhixin and Mr. Xu Wen. The remuneration committee adopted the written terms of reference which were basically the same as those set forth in code provision B.1.2 of the Code. The remuneration committee is principally responsible for assessing performance of executive Directors, approving executive Directors' service contracts, reviewing and determining, with delegated responsibility, the remuneration policy and packages of the individual executive Directors and senior management. This includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss on termination of their office or appointment. No Director is involved in deciding his/her own remuneration.

During the Year, one meeting has been held by the remuneration committee. The remuneration committee had discussed and reviewed the remuneration packages for all Directors and senior management. The record of attendance of members at such meetings is set out on page 32 of this annual report.

### NOMINATION COMMITTEE

The majority of the members of the nomination committee were independent non-executive Directors. As at 31 December 2020, the members of the nomination committee included Mr. Xu Wen, the chairman of the nomination committee, Mr. Nie Zhixin and Mr. Chen Haiquan. The nomination committee's terms of reference are basically the same as those set forth in code provision A.5.2 of the Code. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, and selecting and making recommendations to the Board on the appointment of Directors and senior management.

During the Year, one meeting has been held by the nomination committee to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The record of attendance of members at such meetings is set out on page 32 of this annual report.

### SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 to the Listing Rules as the code of conduct for securities transactions conducted by the Directors. The Company, having made detailed and cautious enquiries, confirmed that all Directors have abided by the Model Code for the Year.

### DIRECTORS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner.

The Directors are responsible for ensuring the maintenance of proper accounting records of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities. The reporting responsibilities of the external auditor, PricewaterhouseCoopers are set out in the Independent Auditor’s Report on page 43 to page 47 of the annual report.

### RISK MANAGEMENT AND INTERNAL CONTROL

#### Duties of the Board and the Management

The Board is responsible for the risk management and internal control system and has the responsibility to review the effectiveness of the system. The Board is responsible for assessing and determining the nature and extent of the risks that the Group is willing to take in achieving strategic objectives, and monitoring the establishment and maintenance by the management of appropriate and effective risk management and internal control systems. The management is responsible for designing and maintaining an effective risk management and internal control system as well as providing confirmations to the Board on the effectiveness of the system.

Sound risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance that there will be no material misstatements or losses.

### Risk Management

1. Enhancement in risk management system and structure

Based on the latest group organizational structure and the work completed in the prior year, the Group has continued to improve the risk management system structure at the group level to guide the risk assessment activities and ongoing risk monitoring activities for various departments by way of the following:

- ✓ **Reiterated the risk management organizational structure** — An organizational structure with the audit committee as the decision-maker and the leading groups and management of various business segments of the Group as the implementation unit, has been established to divide risk management responsibilities and set out clear responsibilities for risk management and the risk information reporting line.

The main roles and responsibilities of the risk management system are as follows:

Roles	Primary Duties
Board (Decision-maker)	<ul style="list-style-type: none"><li>• Assess and determine the nature of the risk and the degree of acceptance to ensure the achievement of strategic objectives</li><li>• Ensure the establishment and maintenance of an effective risk management and internal control system</li><li>• Supervise management for the design, implementation and monitoring of the risk management and internal control system</li></ul>
Audit Committee (Decision-maker)	<ul style="list-style-type: none"><li>• Review the structure and responsibilities of risk management and continuously monitor its effectiveness, review the basic risk management system</li><li>• Supervise the management for the design, implementation and monitoring of the risk management and internal control system</li><li>• Monitor significant control failures or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition</li></ul>

## CORPORATE GOVERNANCE REPORT (Continued)

Roles	Primary Duties
Senior management of the Group (Leadership)	<ul style="list-style-type: none"> <li>Responsible for the development of risk management system, regularly review the Company's risk management policies and system</li> <li>Design, implement and supervise the risk management work of the Group, report on risk management to the audit committee on a regular basis, and report and disclose significant risk information to the audit committee</li> <li>Provide the audit committee with the confirmation of the effectiveness of the risk management system</li> </ul>
Management at the headquarters of the Group and management of various departments (Implementer)	<ul style="list-style-type: none"> <li>Regularly update the list of risks involved in the relevant activities, and carry out risk identification and evaluation and other related work</li> <li>Develop and implement a risk response program for the relevant activities</li> <li>Responsible for the implementation of specific risk management measures</li> <li>Monitor all kinds of risks involved in the relevant activities, timely report to the risk management coordinator and risk management leadership on risk information</li> <li>Conduct other relevant work on risk management</li> </ul>
Risk management coordinators	<ul style="list-style-type: none"> <li>Coordinate risk identification and assessment work</li> <li>Organize the preparation of regular risk assessment reports, summarize and submit the results to the risk management leadership</li> <li>Organize and coordinate risk management training and guidance</li> </ul>
Internal audit function	<ul style="list-style-type: none"> <li>a risk management supervising department, responsible for supervising risk management work of the Group and various business segments</li> </ul>
<p>✓ <b>Updated the risk assessment criteria</b> — During the Year, in response to the changes in internal and external environment, taking into account the business nature, operation characteristics and strategic objectives of the Group and each segment and the risk appetite of the management, the Group updated the risk assessment standards applicable to each business segment and carried out the assessment on the risks that are most likely to affect the achievement of the corporate objectives by using commonly recognized assessment methods and assessment criteria.</p>	

- ✓ **Refined and standardized the risk management workflow** — Based on the business operations, the Group continuously monitors and manages risks through the risk management workflow covering major steps including identification, assessment, response, monitoring and reporting (please refer to figure 1 “Risk management workflow” below for details). The main elements include, for the purposes of business objectives of the Group and various business segments, identifying the risk factors that affect the achievement of business objectives, assessing the likelihood and potential impacts of each specific risk; adopting measures to deal with the risks identified; and continuously monitoring the changes in risks and timely adjusting countermeasures. During the Year, the Group reviewed, adjusted and improved the risk management workflow, improving the efficiency and standardization of its operation.



Figure 1: Risk management workflow

- ✓ **Refined and reiterated the risk management review frequency** — The frequency of risk management assessment and reporting of the Group was reiterated (to be at least once a year), and the aforesaid key elements have been incorporated in the Risk Management Manual of the Group to standardize the forms and frequency of reporting.



## CORPORATE GOVERNANCE REPORT (Continued)

### 2. Risk assessment work of the Group for 2020

In addition to the aforesaid risk management framework at the group level, the management of the Group also engaged external advisors to assist in the continuous maintenance of the risk management system in 2020, details of which include the following:

- *Advance the implementation of material risk assessment results of the Group for the prior year*

During the Year, the management of the Group followed up on the implementation of the measures in respect of the areas for improvement in management and control identified in the risk assessment for the prior year, establishing a continuous management and control cycle model of “Risk identification — Implementation of risk countermeasures — Review effectiveness of the implementation of risk response measures — Continuous optimization of risk management and control” in order to ensure that the material risk management gaps have been effectively improved and to continuously improve the Group’s ability to prevent and cope with risks (for details, please refer to Figure 2: Risk assessment, management and control model).



Figure 2: Risk assessment, management and control model

- *Conduct a comprehensive review of risk management system of the Group for the year of 2020*

The management of the Group updated the risk assessment standards and the risk database based on the changes in the external market environment and the internal operating environment, the progress of business and risk appetite. In addition, it adopted a systematic risk assessment method to review the changes in the nature and degree of the material risks that its business segments face, identified the material risks facing its business segments, analyzed the status of risk management and control and countermeasures to be adopted and key risk management strategies, and reported the risk assessment results to the audit committee. The audit committee reviewed and assessed the changes in the nature and degree of material risks on behalf of the Board, and completed the review of the risk management systems and considered these systems effective and sufficient.

Internal Control

1. Enhancement of the internal control framework

The Group has established its own internal control system by making reference to the internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (please refer to figure 3: COSO Internal Control — Integrated Framework). The Group’s internal control system consists of five interdependent elements, which coordinate and operate to ensure the effectiveness of internal control functions of the Group. The five elements are: control environment, risk assessment, control activities, information and communication and monitoring activities.



Figure 3: COSO Internal Control — Integrated Framework

The internal control system of the Group, as an integral part of its risk management, is established based on the risks facing the Group. The management at the headquarters of the Group, its business segments and departments has designed and implemented a series of policies and procedures in view of the process relating to finance, operation and compliance, and monitors the implementation of these policies and procedures and their effectiveness.

2. Internal Audit

The Group has in place internal control functions. Management has developed measures for improvement in view of the vulnerabilities and weaknesses identified during the internal controls review, which are followed up on by the Supervision Department on a regular basis to ensure the timely implementation of the relevant measures for improvement.

### REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

During the Year, the Board, through the audit committee, conducted a comprehensive review of the risk management and internal control systems of the Group for the financial year of 2020, which mainly involved the continuous advancement of risk assessment and the major assessment of the results of the internal control review for the prior year as well as the risk assessment and internal control review for key business process for the Year and covered the Group and its major business segments. All important aspects of control, including financial, operation and compliance areas, were reviewed, and the natures and severity of major risks as well as the Group's ability to cope with the changes in its business and external environment, were reviewed, and these systems were considered effective and sufficient.

The audit committee has reviewed the resources, staff qualifications and experience of the Company on accounting, internal audit and financial reporting functions as well as its staff training programs and budget and confirmed the adequacy of the same.

### FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has put in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls, including but not limited to establishing controls for monitoring business and corporate developments and events so that any potential inside information is promptly identified and escalated, restricting access to inside information to a limited number of employees on a need-to-know basis, and ensuring employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality, for the handling and dissemination of inside information in a timely manner so as to allow all shareholders and stakeholders of the Group to assess the latest position of the Group.

### AUDITOR'S REMUNERATION

For the Year, the emolument to the external auditor of the Company for the annual audit and review of interim financial statements amounted to approximately RMB2,600,000 and the emolument of the external auditor of the Company for providing non-audit services including consultation and advisory service regarding corporate governance reporting and environmental, social and governance reporting and audit fee for merger and acquisition amounted to approximately RMB3,826,000.

### AMENDMENTS TO THE COMPANY'S CONSTITUTIONAL DOCUMENTS

During the Year, the Company did not amend its Bye-laws.

## SHAREHOLDERS' RIGHTS

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at the general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require a special general meeting ("**SGM**") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. Eligible Shareholders who wish to convene a SGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such SGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

## RIGHT TO NOMINATE DIRECTORS FOR ELECTION AT GENERAL MEETINGS

Shareholder who wishes to propose a person other than a Director of the Company for election as a Director must deposit a written notice (the "**Notice**") to the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong, or the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited (the "**Hong Kong Branch Share Registrar**"), at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Company Secretary. The Notice must state clearly the name of the Shareholder(s) and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (not the person to be nominated). The Notice must also be accompanied by a letter of consent signed by the person nominated to be elected on his/her willingness to be elected as a Director.

The period for lodgment of the Notice will commence on the day after the dispatch of the notice of the general meeting held for the election of Directors and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified by the Hong Kong Branch Share Registrar and upon their confirmation that the request is proper and in compliance with the rules of procedures, the Company Secretary will ask the nomination committee of the Company and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

The right and procedures to convene a general meeting and to demand a poll on resolutions at general meetings by Shareholders are set out in the Company's amended and restated Bye-laws headed "General Meetings", "Notice of General Meetings", "Proceedings At General Meetings" and "Voting".

### DISCLAIMERS

The contents of the section headed “Shareholders’ Rights” and “Right to Nominate Directors for Election at General Meetings” in this report are for reference only and in compliance with disclosure requirements, which do not represent and shall not be regarded as legal or other professional advice to the Shareholders. Shareholders should seek their independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims any liability for all liabilities and losses incurred by the Shareholders in reliance upon any contents of the section headed “Shareholders’ Rights” and “Right to Nominate Directors for Election at General Meetings”.

### INVESTOR RELATIONS

The Company emphasises communication with institutional investors so as to enhance the transparency of the Company, and stresses the importance of channels to collect and respond to the opinions of institutional investors. The Company released information and responded to questions from the media through press conferences and the Company’s website, and communicated with the media on a regular basis.

Shareholders, investors and the media can make enquiries with us by the following methods:

By telephone: (852) 2287 9208/2287 9218/2287 9207

By post: 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong