THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Shandong International Trust Co., Ltd.**, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE GENERAL MEETING
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE BOARD OF DIRECTORS
AND
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE BOARD OF SUPERVISORS
AND
NOTICE OF 2022 FOURTH EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Gram Capital Limited
嘉林資本有限公司

A notice convening the EGM to be held at Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC on Thursday, 29 December 2022 at 9:30 a.m. is set out on pages 128 to 130 of this circular, and the proxy form for use is enclosed herewith and also published on both the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sitic.com.cn). If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed proxy form in accordance with the instructions printed thereon no less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. by 9:30 a.m. on Wednesday, 28 December 2022). Completion, signing and return of the proxy form will not preclude you from attending and voting in person at the EGM.

14 December 2022

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Articles of Association"	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"CBIRC"	the China Banking and Insurance Regulatory Commission
"China Trust Protection Fund"	China Trust Protection Fund Co., Ltd. (中國信託業保障基金有限責任公司), a banking financial institution established jointly by the China Trust Association and certain trust companies in the PRC to protect the fundraising, management and use of the Trust Industry Protection Fund and carry out business as authorised by the CBIRC
"CNPC Assets Management"	CNPC Assets Management Co., Ltd. (中油資產管理有限公司), a limited liability company established on 29 April 2000 in the PRC, a substantial shareholder of the Company
"Company" or "SITC"	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), a joint stock company established in the PRC with limited liability, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 1697)
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration of Debt Transfer"	the total consideration for the acquisition of the Ruiyuan No.61 Debt payable by the Purchaser under the Transfer Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Debt Transfer"	the transfer of the Ruiyuan No.61 Debt by the Company to the Purchaser pursuant to the Transfer Agreement

"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which is/are subscribed for or credited as paid up in Renminbi
"EGM"	the 2022 fourth extraordinary general meeting of the Company to be held at Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC on Thursday, 29 December 2022 at 9:30 a.m. and any adjournment thereof (as the case may be)
"Group"	the Company and the trust schemes over which it has control
"H Share(s)"	ordinary share(s) of the Company with a nominal value of RMB1.00 each, traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	the International Financial Reporting Standards issued by the International Accounting Standards Board from time to time
"Independent Board Committee"	the independent board committee of the Company, the members of which consist of all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Debt Transfer
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Debt Transfer
"Independent Shareholders"	Shareholders that are not required to abstain from voting at the EGM to consider and approve the Transfer Agreement

"Jinan Finance Holding"	Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司), a limited liability company established on 29 May 2013 in the PRC, a shareholder of the Company
"Latest Practicable Date"	12 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lucion Group"	Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司), a limited liability company established on 31 January 2002 in the PRC, the controlling shareholder of the Company
"PRC" or "China"	the People's Republic of China
"Procedural Rules for the Board of Directors"	the Procedural Rules for the Board of Directors adopted by the Company, as amended from time to time
"Procedural Rules for the Board of Supervisors"	the Procedural Rules for the Board of Supervisors adopted by the Company, as amended from time to time
"Procedural Rules for the General Meeting"	the Procedural Rules for the General Meeting adopted by the Company, as amended from time to time
"Public Tender Procedures"	the public tender procedures conducted through SFATC for the purpose of disposing of the Ruiyuan No.61 Debt
"Purchaser"	Shandong Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司), a joint stock company with limited liability established on 31 December 2014 in the PRC
"Remaining Group"	the Group upon the completion of the Debt Transfer
"RMB"	Renminbi, the lawful currency of the PRC
"Ruiyuan No.61 Debt"	the rights to claim the non-performing debts and the rights to enforce the collaterals of the non-performing debts under the trust loan agreements and guarantee agreements in connection with the Ruiyuan No.61 Trust Scheme

"Ruiyuan No.61 Trust Scheme"	SITC Ruiyuan No.61 Collective Fund Trust Scheme (山東信託 • 睿遠61號集合資金信託計劃), a trust scheme established in April 2017 where the Company acted as the trustee and the lender of the trust loans granted thereunder
"Securities and Futures Ordinance"	Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"SFATC"	Shandong Financial Assets Trade Centre Co., Ltd. (山東金融資產交易中心有限公司), the only financial asset trading platform approved by the Shandong Provincial People's Government of the PRC
"Shandong High-Tech"	Shandong High-Tech Venture Capital Co., Ltd. (山東省高新技術創業投資有限公司), a limited liability company established on 16 June 2000 in the PRC, an indirect non-wholly owned subsidiary of Lucion Group and a shareholder of the Company
"Shandong Office of CBIRC"	Shandong Office of the China Banking and Insurance Regulatory Commission
"Share(s)"	the share(s) in the share capital of the Company with a nominal value of RMB1.00 each
"Shareholders"	registered holders of the Share(s)
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Transfer Agreement"	the agreement dated 14 November 2022 entered into between the Company and the Purchaser in relation to the disposal of the Ruiyuan No.61 Debt
"Trust Industry Protection Fund"	Trust Industry Protection Fund (信託業保障基金), a market-oriented risk mitigation system which was established to protect the legitimate interests of the trustees, effectively prevent the risk of the trust industry and facilitate the sound development of the trust industry
"%"	per cent

The English names of PRC entities included in this circular are unofficial translations of their Chinese names and are included for identification purposes only. The Articles of Association, the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors are written in Chinese. There is no official English translation and the English translation is for reference only. Where there is any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

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)

Executive Directors:
Mr. Wan Zhong *(Chairperson)*
Mr. Fang Hao *(General Manager)*

Non-executive Directors:
Mr. Wang Zengye *(Vice-chairperson)*
Mr. Zhao Zikun
Ms. Wang Bailing

Independent Non-executive Directors:
Mr. Yen Huai-chiang
Mr. Zheng Wei
Ms. Meng Rujing

Registered office:
No.166 Jiefang Road
Lixia District, Jinan
Shandong Province
PRC

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

14 December 2022

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR
THE GENERAL MEETING
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR
THE BOARD OF DIRECTORS
AND
PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR
THE BOARD OF SUPERVISORS
AND
NOTICE OF 2022 FOURTH EXTRAORDINARY GENERAL MEETING**

The purpose of this circular is to give you a notice of the EGM, which is set out on pages 128 to 130 of this circular and to provide you with information in respect of the resolutions to be proposed at the EGM to enable you to make informed decisions on voting on the resolutions as described below. At the EGM, special resolutions concerning the following matters of the Company will be proposed to consider and approve: (i) the Debt Transfer and the Transfer Agreement; (ii) the proposed amendments to the Articles of Association; (iii) the proposed amendments to the Procedural Rules for the General Meeting; (iv) the proposed amendments to the Procedural Rules for the Board of Directors; and (v) the proposed amendments to the Procedural Rules for the Board of Supervisors.

I. DEBT TRANSFER AND TRANSFER AGREEMENT

1. Introduction

Reference is made to the announcement of the Company dated 14 November 2022 in relation to the entering into of the Transfer Agreement in respect of the Debt Transfer. Pursuant to the Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Ruiyuan No.61 Debt at a consideration of RMB2,700,000,000.

2. Public Tender Procedures

In accordance with the relevant rules and regulations in the PRC, the Company conducted the Debt Transfer under Public Tender Procedures with initial listed price determined with reference to the appraised value. The Public Tender Procedures for the Ruiyuan No.61 Debt commenced from 9 November 2022 and concluded on 11 November 2022 (the "**Publication Period**"). During the Publication Period, interested bidders were invited to indicate their intentions to purchase the Ruiyuan No.61 Debt and register themselves as an interested bidder. The Purchaser succeeded in the open bid in relation to the Debt Transfer.

Upon conclusion of the Public Tender Procedures on 11 November 2022 followed by a satisfactory assessment by SFATC on the qualifications of the Purchaser as the winning bidder, negotiation on the specific terms of the Debt Transfer between the Company and the Purchaser commenced for the purpose of entering into the Transfer Agreement. Upon signing of the Transfer Agreement and subject to the approval by the Shareholders at the general meeting of the Company and the satisfaction of the conditions precedent, both the Company and the Purchaser shall become committed to complete the Debt Transfer.

3. Transfer Agreement

The terms and conditions of the Transfer Agreement are summarised as below:

Date

14 November 2022

Parties

(i) The Company; and

(ii) The Purchaser

Disposal

Pursuant to the Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Ruiyuan No.61 Debt, being the rights to claim the non-performing debts and the rights to enforce the collaterals of the non-performing debts under the trust loan agreements and guarantee agreements in connection with the Ruiyuan No.61 Trust Scheme.

Consideration and Payment Terms

The Consideration of Debt Transfer payable by the Purchaser is RMB2,700,000,000. Pursuant to the Transfer Agreement, the Consideration of Debt Transfer shall be payable by the Purchaser to the Company in cash according to the following schedule:

(i) **initial deposit**: the Purchaser has already paid an initial deposit in the amount of RMB540,000,000 to SFATC for participating in the Public Tender Procedures, and such amount shall be applied towards payment of the Consideration of Debt Transfer;

(ii) **initial payment**: within five business days after the execution of the Transfer Agreement, the Purchaser shall pay the initial payment in the amount of RMB1,350,000,000 to an account designated by the Company; and

(iii) **remaining consideration**: after all conditions precedent in the Transfer Agreement have been fulfilled, the Purchaser shall pay the balance of the Consideration of Debt Transfer in the amount of RMB810,000,000 to an account designated by the Company on or before 31 March 2023.

Conditions Precedent and Completion

The completion of the Debt Transfer (the "**Completion of the Debt Transfer**") is conditional upon the satisfaction of the following conditions:

(i) as at the date of Completion of the Debt Transfer, both the Company and the Purchaser have complied with and performed all their undertakings and obligations under the terms of the Transfer Agreement in all material aspects by the times specified;

(ii) as at the date of Completion of the Debt Transfer, the representations and warranties made by the Company and the Purchaser in the Transfer Agreement remain true, accurate, valid and complete in all material aspects at the time they were made and up to the date of Completion of the Debt Transfer, as if such representations and warranties were made on the date of the Completion of the Debt Transfer;

(iii) the Company has obtained all necessary consents, approvals, permissions and waivers in relation to the Debt Transfer, and submitted the above relevant documents to the Purchaser;

(iv) there are no laws, regulations, judgments, awards, rulings, injunctions, court orders or relevant regulatory bodies restricting, prohibiting or rescinding the Debt Transfer, nor are there any pending or potential litigations, arbitrations, judgments, awards, rulings, injunctions or court orders that have had or will have a material adverse effect on the Debt Transfer; and

(v) other necessary conditions agreed upon negotiation.

During the transition period (being the period from 31 December 2021 to the date of Completion of the Debt Transfer), the Company is responsible for the management and maintenance of the Ruiyuan No.61 Debt. The sum recovered under the Ruiyuan No.61 Debt, after deducting the costs and expenses incurred by the Company for such management and maintenance, shall belong to the Purchaser, if any. Since the appraisal date for the purpose of going through the Public Tender Procedures for the Ruiyuan No.61 Debt is 31 December 2021, any change to such conditions subsequent to 31 December 2021 would lead to adjustment of the Consideration of Debt Transfer. Taking into account the factors mentioned above, the Company believes that such transition arrangement is fair and reasonable, and in the interest of the Company and Shareholders as a whole.

Both parties agree that if any of the conditions precedent have not been fulfilled or waived upon further negotiation and agreement reached between the parties by 31 March 2023, the Transfer Agreement shall be terminated automatically. Save for conditions (i) and (iii) which cannot be waived, none of the conditions as stated above have been fulfilled or waived as at the Latest Practicable Date. There is no impact on the substance of the Debt Transfer if the relevant conditions are being waived. If the Purchaser fails to pay the Consideration of Debt Transfer in accordance with the payment schedule, as a result of which the Completion of the Debt Transfer does not take place, the Company can forfeit the initial deposit in the amount of RMB540 million. The Company shall return to the Purchaser all the consideration paid by the Purchaser and any costs of fund occupation accrued thereon (1) within three business days upon it is confirmed that the Transfer Agreement cannot take effect on 31 March 2023, or (2) within five business days upon the Transfer Agreement being terminated automatically or due to reasons on the part of the Company. Such costs to be returned by the Company to the Purchaser shall be calculated at a rate of 4.75% per annum from the date of the payment by the Purchaser to the date of return by the Company (the "**Fund Return Clause for Debt Transfer**").

Effective Date

Save for the Fund Return Clause for Debt Transfer which shall take effect upon the execution of the Transfer Agreement on 14 November 2022, the Transfer Agreement shall take effect on the date of the Shareholders having passed the relevant resolution at the general meeting of the Company to approve the Debt Transfer in accordance with the relevant requirements of the Listing Rules.

4. Information of the Parties and the Target

The Company

The Company is a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1697). The Company is principally engaged in the provision of comprehensive financial service and wealth management service.

The Purchaser

The Purchaser, Shandong Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司), is a joint stock company established in the PRC on 31 December 2014 which is principally engaged in acquisition, management and disposal of non-performing asset, asset management and provision of comprehensive financial services. It is owned as to approximately 82.29%, 2.73%, 1.36% and 1.09% by Lucion Group, Jinan Caijin Investment Co., Ltd., the Company and CNPC Assets Management, respectively, and therefore a non-wholly owned subsidiary of Lucion Group. Lucion Group is owned as to 90.39% by the Shandong Province Finance Bureau and 9.61% by Shandong Caixin Assets Operation Co., Ltd., which is wholly-owned by the Shandong Province Finance Bureau. Jinan Caijin Investment Co., Ltd. is owned as to approximately 46.38% by Jinan Finance Holding. Both CNPC Assets Management and Jinan Finance Holding are shareholders of the Company.

Ruiyuan No.61 Debt

The Ruiyuan No.61 Debt represents the rights to claim the non-performing debts and the rights to enforce the collaterals of the non-performing debts under the trust loan agreements and guarantee agreements (the "**Ruiyuan Trust Loans**") in connection with the Ruiyuan No.61 Trust Scheme, which is a trust scheme established in April 2017. The Company is the trustee of the Ruiyuan No.61 Trust Scheme and the lender of the Ruiyuan Trust Loans. The principal amount together with the interest of the Ruiyuan Trust Loans (less the deposit of RMB45 million) is approximately RMB5,496.35 million. The assets pledged or mortgaged under the Ruiyuan Trust Loans consist of: (a) six villas (with a total gross floor area of approximately 9,891.71 square metres) located in Chaoyang District, Beijing, the PRC; (b) land-use rights of a plot of land for residential purpose (approximately 80,313.57 square metres) located in Chaoyang District, Beijing, the PRC; and (c) 100% equity interest in the borrower which is a company established in the PRC (together, the "**Collaterals**"). Based on the information provided by the borrower, it is engaged in the development of one residential property project located in Chaoyang District, Beijing. The borrower has a registered capital of RMB10 million and its net asset value as at 31 December 2021 is approximately RMB1.59 million.

Since the borrower defaulted in payment of the interest and principal in connection with the Ruiyuan No.61 Trust Scheme in March 2020 and April 2020, respectively, the Ruiyuan No.61 Debt have become non-performing assets of the Company. The appraised value of the Collaterals for the purpose of going through the Public Tender Procedures is approximately RMB4,501.8 million. While the Consideration of Debt Transfer is lower than the appraised value of the Collaterals, taking into account the complex legal procedures and significant time costs and expenses involved in initiating judicial actions, and the uncertainty in the enforcement results as disclosed in the paragraph headed "VII. Reasons for and Benefits of the Debt Transfer", the Company considered that it is not in the best interests of the Company or the Shareholders to recover the Ruiyuan No.61 Debt through directly enforcing the Collaterals at the appraised value.

5. Consideration of the Debt Transfer

Since no bidders indicated any interest in the Ruiyuan No.61 Debt during the designated period after the commencement of the Publication Period, the Company adjusted the listed price in accordance with the Public Tender Procedures, and the Purchaser quoted RMB2,700 million for the Ruiyuan No.61 Debt. The Consideration of Debt Transfer is the outcome of the Public Tender Procedures which represented the highest bidding price offered during the Publication Period for the Ruiyuan No.61 Debt. As at 30 June 2022, the Company made provision for impairment losses of approximately RMB133.2 million in connection with the Ruiyuan Trust Loans and the Ruiyuan No.61 Debt have become non-performing assets of the Company. The carrying amount of the Ruiyuan No.61 Debt as at 30 June 2022 was approximately RMB4,366.8 million.

Apart from the assessment done by the Company regarding the recoverability of the Ruiyuan Trust Loans at the time of initiating the Public Tender Procedures, the Company made enquiries with three asset management companies independent from the Company that are engaged in management of distressed assets to understand market expectation on the transfer price of the Ruiyuan No.61 Debt in November 2022. The highest quotations that the Company obtained from such asset management companies for the Ruiyuan No.61 Debt ranged from RMB2,500 million to RMB2,700 million. Since August 2022, the Company also made enquiries with two real estate developers to explore the possibility of transferring the Collaterals but did not make any progress as neither of them indicated any interest in the Collaterals. The Company also conducted research in the differences between the listed prices and final transfer prices of non-performing assets that are similar to the Ruiyuan No.61 Debt transacted through public tender procedures by reviewing the details of over a hundred disposal transactions of non-performing assets with a similar nature since 2019 available from public domains, and noted that the final transfer prices are generally below 40% of the listed prices for non-performing assets. The Company considered that the Consideration of Debt Transfer conforms with the market expectation as stated above.

6. Use of Proceeds

The gross proceeds from the Debt Transfer are expected to be RMB2,700 million and the net proceeds (after deduction of related transaction expenses) are expected to be RMB2,698 million, which will be applied to replenish the Company's working capital and optimise the financial and regulatory indicators applicable to the Company. Recently, the Company has placed more focus on developing its proprietary business; meanwhile, it also actively adjusted the asset allocation portfolio structure and continued to increase the investment of proprietary funds in innovative businesses promoted and advocated by the regulators, such as the capital market trust, family trust and service trust. On the other hand, the Group's current liabilities exceeded its current assets by RMB1,187 million as at 30 June 2022. The Company intends to apply:

– approximately RMB700 million for the investment in the Company's self-issued trust products to support the active transformation of its trust business following the regulatory guidance, with an estimated investment yield of 3% to 8% based on historical performance;

– approximately RMB1,000 million for the replenishment of its working capital given the Company, as a trust company, shall periodically monitor its risk-based capital in accordance with the regulations promulgated by the CBIRC, such as the Administrative Measures on Net Capital of Trust Companies (《信託公司淨資本管理辦法》), which requires the Company to maintain the ratio of net capital to total risk-based capital at a certain level. It is essential for the Company to maintain the ratios within the span of control and enhance the capability of risk resilience, which in turn will facilitate the Company obtaining more new business opportunities; and

– approximately RMB1,000 million for the partial repayment of the interest-bearing loans granted by China Trust Protection Fund to the Company, and the balance of such loans was RMB2,000 million as at the Latest Practicable Date and will successively become due in early 2023.

7. Reasons for and Benefits of the Debt Transfer

After the promulgation of the Guiding Opinion on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), the regulatory authorities encouraged trust companies to engage in capital market trust, family trust, service trust and other original trust businesses, and actively explore business transformation by focusing on the latest regulatory directions on trust business classification. The COVID-19 pandemic, which has been going on since 2020, has brought substantial downward pressure on the economic environment at home and abroad, and the regulatory authorities have continued to tighten the regulatory policies on trust companies' traditional financing business and the cooperative business between banks and trust companies. The Company is facing increased exposure to risks in certain traditional business sectors, and its current liabilities exceeded its current assets in the past two financial years. In light of the circumstances, the Company needs sufficient liquidity funds to manage and respond to the risk of market fluctuation to improve its performance and sustainable operation abilities.

As disclosed in the paragraph headed "VI. Use of Proceeds" above, the Company planned to devote more financial resources in its proprietary business so as to support its business transformation and development. Taking into account the financial position of the Company, the complexity of legal procedures involved and the regulatory approvals required in conducting fund-raising activities through equity or debt financing, the Company decided to obtain the relevant funding through disposal of assets.

The Ruiyuan No.61 Debt has become non-performing assets of the Company, and provision for impairment losses of approximately RMB133.2 million has been made in connection with the Ruiyuan Trust Loans as at 30 June 2022. The Company is of the view that even the Consideration of Debt Transfer is lower than the carrying amount of the Ruiyuan No.61 Debt, there is still a strong initiative for it to proceed with the Debt Transfer. It is expected that the Company will need to make further provision for impairment losses after periodically reviewing the value of the Collaterals if the borrower is not able to repay the defaulted loan in full.

The Collaterals comprise the equity interest in the borrower of the Ruiyuan Trust Loans which is a real estate developer and certain housing properties and land use rights of a plot of land located in Beijing, the PRC. The real estate industry in the PRC has been facing downward pressure and financing difficulties. According to the Wind statistical database (https://www.wind.com.cn/), in the first three quarters of 2022, 24 real estate enterprises in the domestic bond market in the PRC announced bond extensions and the aggregated scale of extensions reached RMB119.3 billion, representing an increase of RMB100 billion compared with the entire year of 2021. Data from the Shanghai Commercial Paper Exchange shows that 2,633 enterprises in the real estate industry defaulted in payment of commercial paper in August 2022, accounting for 64% of the total defaulted enterprises. Moreover, the Company noted that five sizable real estate developers in the PRC defaulted during the period from the end of September 2022 to early November 2022. The decline in sales caused by the grinding impact of the COVID-19 pandemic and the unstable macroeconomic and policy environment, coupled with increasing difficulties in financing, has adversely affected the business and financial positions and led to high gearing ratios and cashflow issues for real estate enterprises in the PRC, as a result of which it is expected that more real estate enterprises may default in debt repayment in the future. Based on the reasons above, the Company considered that the value and recoverability of the Collaterals still remains unstable.

As mentioned above, the Company made enquiries with three asset management companies that are engaged in management of distressed assets to understand market's expectation on the transfer price of the Ruiyuan No.61 Debt in November 2022. The highest quotations that the Company obtained from those asset management companies for the Ruiyuan No.61 Debt ranged from RMB2,500 million to RMB2,700 million, which, the Company believes, reflects the expectation of the market on the value of the Ruiyuan No.61 Debt in light of the current market conditions.

When considering if further provision for impairment losses should be made in connected with the Ruiyuan Trust Loans, the Company will periodically review the recoverable value of the Collaterals, engage independent professional valuers to conduct valuation on the Collaterals, and make enquiries with asset management companies to understand market's expectation. It is expected that the Company will make further provision for impairment losses in connected with the Ruiyuan Trust Loans.

The Company has been exploring possible solutions to settle the Ruiyuan No.61 Debt and mitigate the risks arising since it became the Company's non-performing asset. The Company failed to reach any consensus with the borrower on the disposal of the housing properties and land use rights comprising the Collaterals. As mentioned above, the Company has tried to identify potential real estate developers to explore the possibility of transferring the Collaterals but did not make any progress. Therefore, the Company can only enforce the Collaterals by taking possession itself or disposal to third parties through judicial auctions. Such actions involve complex legal procedures and potential time costs and expenses, and the enforcement results may not be favourable to the Company due to the instability in the policy and macroeconomic environment faced by the real estate industry. Furthermore, it is not practicable for the Company to take possession of the Collaterals as it is never the intention for the Company to engage in real estate development in the PRC which requires specific expertise. Indeed, the Company has completed its internal approval procedures to initiate legal actions against the Collaterals and take appropriate judicial measures such as asset preservation. However, the Company decided not to proceed after considering the relevant legal expenses of approximately RMB80 million and timing for obtaining a favourable order and completing the enforcement (which may take at least three to five years). Therefore, the Company believes that enforcing the Collaterals through judicial actions will involve complex legal procedures, significant time costs and expenses, and highly uncertain enforcement results, which indicate that it is not a desirable way to recover the Ruiyuan No.61 Debt.

Taking into account the factors mentioned above, including the reasons as disclosed in the paragraph headed "VI. Use of Proceeds", the Board believes that (i) the disposal of the Ruiyuan No.61 Debt will help the Company to properly solve the remaining issues of the Ruiyuan No.61 Trust Scheme, and reduce the non-performing assets of the Company; (ii) it would take a very long time for the Company to recover the amount due from the borrower through enforcing the Collaterals, and the recoverability is highly uncertain. The Debt Transfer can allow the Company to obtain more liquid funds to invest in areas that can generate investment returns faster with a higher rate of return to improve the efficiency in use of capital. Otherwise, further impairment in the Ruiyuan No.61 Debt, if materialised, would cause increased losses to the Company. It is therefore in the interest of the Company and the Shareholders as a whole to dispose of the Ruiyuan No.61 Debt as soon as possible; and (iii) the Debt Transfer will help improve the structure of assets and liabilities of the Company, optimise the Company's financial and industry regulatory indicators such as non-performing asset ratio, improve its asset allocation structure by disposing of inefficient assets in a timely manner, and therefore strengthen its sustainable operation abilities.

Having considered the abovementioned factors, the Directors (including the independent non-executive Directors) considered that the Debt Transfer is in the Company's ordinary and usual course of business, and the Debt Transfer and the terms of the Transfer Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

8. Financial Effect Arising from the Debt Transfer

The Company accounted the Ruiyuan No.61 Debt under "loans to customers" in its financial statements. Upon the Completion of the Debt Transfer, if materialised, the sum of the loans to customers is expected to be reduced by RMB4,366.8 million, the total assets of the Company is expected to decrease by RMB1,702.5 million, the total liabilities of the Company is expected to decrease by RMB450.7 million (estimated based on the decrease in tax payable as a result of the disposal loss and the transaction expenses), and the Company is expected to recognise a corresponding loss of RMB1,669.0 million, which is estimated based on (a) the Consideration of Debt Transfer of RMB2,700 million, (b) the sum of the carrying amounts of the Ruiyuan No.61 Debt as at 30 June 2022 of approximately RMB4,366.8 million, and (c) the relevant transaction expenditures and taxation of approximately RMB2.2 million.

9. Listing Rules Implications

The Debt Transfer constitutes a notifiable transaction of the Company under Chapter 14 of the Listing Rules. Since the Purchaser is a non-wholly owned subsidiary of Lucion Group, being the controlling shareholder of the Company directly holding approximately 48.13% and indirectly holding approximately 4.83% through Shandong High-Tech of the total issued shares of the Company (i.e. 2,467,202,580 Domestic Shares in aggregate), the Purchaser is therefore a connected person of the Company under the Listing Rules. Thus, the Transfer Agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the Transfer Agreement and the transaction contemplated thereunder exceed 75%, the Debt Transfer constitutes a very substantial disposal and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Directors has any material interest in the Transfer Agreement. However, Mr. Wan Zhong (an executive Director) and Mr. Zhao Zikun (a non-executive Director), have voluntarily abstained from voting on the relevant resolution approving the Transfer Agreement at the Board meeting, for the reason that they currently serve positions in Lucion Group and/or its associates.

CNPC Assets Management and Jinan Finance Holding, shareholders of the Company holding approximately 18.75% (i.e. 873,528,750 Domestic Shares) and 5.43% (i.e. 252,765,000 H Shares) of the total issued shares of the Company, respectively, also directly or indirectly hold equity interest in the Purchaser. As the Purchaser, Lucion Group, CNPC Assets Management and Jinan Finance Holding have material interest in the Debt Transfer, Lucion Group, CNPC Assets Management and Jinan Finance Holding and their associates holding 3,593,496,330 Shares accounting for approximately 77.14% of the total issued shares of the Company in aggregate are required to abstain from voting on the resolution to approve the Transfer Agreement at the EGM. Save as disclosed above, there are no other Shareholders who have material interest in the Transfer Agreement or have to abstain from voting on the resolution to approve the Transfer Agreement at the EGM.

10. Independent Board Committee

The Independent Board Committee has been formed by the Company to consider, and to advise the Independent Shareholders on the terms of the Transfer Agreement. The Company has appointed Gram Capital to make recommendations to the Independent Board Committee and the Independent Shareholders on the terms of the Transfer Agreement. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 20 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the Transfer Agreement.

Having considered the terms of the Transfer Agreement and having taken into account the advice from Gram Capital as stated in its letter, the independent non-executive Directors consider that the Debt Transfer is in the Group's ordinary and usual course of business, and the terms of the Transfer Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

11. Independent Financial Adviser

The Company has appointed Gram Capital as the Independent Financial Adviser for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of Transfer Agreement are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole. A letter from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 33 of this circular. The letter from Gram Capital to the Independent Board Committee and the Independent Shareholders contains factors they have considered and their recommendations on the Transfer Agreement.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 11 November 2022 in relation to, among other things, the proposed amendments to the Articles of Association, the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors. In accordance with the Interim Measures for the Equity Management of Trust Companies and other laws and regulations and the latest regulatory requirements, and taking into account the Company's corporate governance practices, the Board of Directors proposed to amend the Articles of Association (the "**Proposed Amendments to the Articles of Association**"). Details of the Proposed Amendments to the Articles of Association are set out in Appendix III to this circular. The Proposed Amendments to the Articles of Association are subject to the approval by the Shareholders by way of a special resolution at the EGM and the approval of the Shandong Office of CBIRC. It will be also proposed at the EGM to authorise the Board of Directors to make corresponding amendments to the Articles of Association in accordance with comments or requirements of the regulatory authorities and the relevant departments, handle the approval procedures of the amendments to the Articles of Association and submit to the market supervision and management department for filing.

III. PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE GENERAL MEETING

In view of the Proposed Amendments to the Articles of Association, the Board of Directors proposed to amend the Procedural Rules for the General Meeting accordingly (the "**Proposed Amendments to the Procedural Rules for the General Meetings**"). Details of the Proposed Amendments to the Procedural Rules for the General Meeting are set out in Appendix IV to this circular. The Proposed Amendments to the Procedural Rules for the General Meeting are subject to the approval of the Shareholders by way of a special resolution at the EGM and the approval of the Proposed Amendments to the Articles of Association at the EGM and by the Shandong Office of CBIRC.

IV. PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE BOARD OF DIRECTORS

In view of the Proposed Amendments to the Articles of Association, the Board of Directors proposed to amend the Procedural Rules for the Board of Directors accordingly (the "**Proposed Amendments to the Procedural Rules for the Board of Directors**"). Details of the Proposed Amendments to the Procedural Rules for the Board of Directors are set out in Appendix V to this circular. The Proposed Amendments to the Procedural Rules for the Board of Directors are subject to the approval by the Shareholders by way of a special resolution at the EGM and the approval of the Proposed Amendments to the Articles of Association at the EGM and by the Shandong Office of CBIRC.

V. PROPOSED AMENDMENTS TO THE PROCEDURAL RULES FOR THE BOARD OF SUPERVISORS

In view of the Proposed Amendments to the Articles of Association, the Board of Supervisors proposed to amend the Procedural Rules for the Board of Supervisors accordingly (the "**Proposed Amendments to the Procedural Rules for the Board of Supervisors**"). Details of the Proposed Amendments to the Procedural Rules for the Board of Supervisors are set out in Appendix VI to this circular. The Proposed Amendments to the Procedural Rules for the Board of Supervisors are subject to the approval by the Shareholders by way of a special resolution at the EGM and the approval of the Proposed Amendments to the Articles of Association at the EGM and by the Shandong Office of CBIRC.

VI. EGM

Since the Debt Transfer, if aggregated with the disposal of the Company's equity interest in Fullgoal Fund Management Co., Ltd. and all debts under the Ruiyuan No.76 Trust Scheme conducted in the first half of 2022, constitutes a sale of material asset with an amount exceeding 30% of the latest audited total assets of the Company under Article 86(7) of the Articles of Association, the Debt Transfer and the Transfer Agreement shall be approved by way of a special resolution at the EGM. The resolutions on the proposed amendments to the Articles of Association, the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors shall be approved by way of a special resolution at the EGM.

The EGM will be held at Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC on Thursday, 29 December 2022 at 9:30 a.m.. A notice convening the EGM is set out on pages 128 to 130 of this circular.

The holders of H Shares and Domestic Shares whose names appear on the registers of the members of the Company on Thursday, 29 December 2022 are entitled to attend and vote at the EGM. The registers of members of the Company will be closed from Thursday, 22 December 2022 to Thursday, 29 December 2022 (both days inclusive), during which no transfer of Shares can be registered. All transfer documents together with the relevant share certificates must be lodged for registration with the Company's Hong Kong branch H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) or the Office of the Board of Directors (Supervisors) of the Company at 35/F, Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC (for holders of Domestic Shares) not later than 4:30 p.m. on Wednesday, 21 December 2022.

A proxy form for use at the EGM is enclosed herewith and also published on both the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sitic.com.cn). If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed proxy form in accordance with the instructions printed thereon no less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. by 9:30 a.m. on Wednesday, 28 December 2022). Completion, signing and return of the proxy form will not preclude you from attending and voting in person at the EGM.

VII. LISTING RULES REQUIREMENTS

According to Rule 13.39(4) of the Listing Rules, apart from certain exceptions, any vote of Shareholders at a general meeting must be taken by poll. The resolutions at the EGM will be voted by way of poll. The Chairperson of the EGM shall therefore demand voting on the resolutions set out in the notice of the EGM be taken by way of poll pursuant to Article 88 of the Articles of Association. An announcement on the poll results will be published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sitic.com.cn), respectively by the Company after the conclusion of the EGM in the manner prescribed under the Listing Rules.

VIII. RECOMMENDATION

The Board considers that (i) the Debt Transfer is in the Group's ordinary and usual course of business, and the terms of the Transfer Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the resolutions on the proposed amendments to the Articles of Association, the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors to be proposed at the EGM for consideration are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all Shareholders vote in favour of the resolutions to be proposed at the EGM as set out in the notice of the EGM.

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

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Transfer Agreement.

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)

14 December 2022

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 14 December 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Transfer Agreement, and to give recommendation to the Independent Shareholders as to whether, in our opinion, the Debt Transfer is in the Group's ordinary and usual course of business, whether the terms of the Transfer Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and whether the Transfer Agreement is in the interests of the Company and its Shareholders as a whole. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transfer Agreement.

We wish to draw your attention to the letter from the Board set out in the section of Letter from the Board in the Circular which contains, among other things, information about the Transfer Agreement, the letter of advice from Gram Capital set out in the section of Letter from Gram Capital in the Circular which contains its advice in respect of the terms of the Transfer Agreement, and the information set out in the appendices thereto.

Having considered the terms of the Transfer Agreement and having taken into account the advice from Gram Capital as stated in its letter, we consider that the Debt Transfer is in the Group's ordinary and usual course of business, and the terms of the Transfer Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in relation to the Transfer Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Yen Huai-chiang	**Mr. Zheng Wei**	**Ms. Meng Rujing**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Debt Transfer for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

14 December 2022

To: The independent board committee and the independent shareholders of Shandong International Trust Co., Ltd.

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Debt Transfer, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 14 December 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 14 November 2022 (the "**Agreement Date**"), the Company entered into the Transfer Agreement with the Purchaser, pursuant to which the Company conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Ruiyuan No.61 Debt at consideration of RMB2,700,000,000.

With reference to the Board Letter, the Debt Transfer constitutes a very substantial disposal and connected transaction of the Company, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Yen Huai-chiang, Mr. Zheng Wei and Ms. Meng Rujing (being all independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Debt Transfer are on normal commercial terms and are fair and reasonable; (ii) whether the Debt Transfer is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Debt Transfer at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of the very substantial disposal and connected transactions as contained in the Company's circular dated 30 June 2022. Save for the aforesaid engagement, there was no other services provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial advisory engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Debt Transfer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Purchaser or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Debt Transfer. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Debt Transfer, we have taken into consideration the following principal factors and reasons:

Background of the Debt Transfer

Information on the Group

With reference to the Board Letter, the Company is a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1697). The Company is principally engaged in the provision of comprehensive financial service and wealth management service.

With reference to the Company's interim report for the six months ended 30 June 2022 (the "**2022 Interim Report**"), the Group's business segments are (i) trust business; and (ii) proprietary business. Trust business is the Group's main business. As the trustee, the Group accepts entrustment of funds and/or property from its trustor clients and manages such entrusted funds and/or property to satisfy its trustor clients' investment and wealth management needs, as well as its counterparty clients' financing needs. The Group's proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business to maintain and increase the value of its proprietary assets.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2021 and for the six months ended 30 June 2022, as extracted from the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**") and the 2022 Interim Report:

	For the six months ended 30 June 2022	**For the year ended 31 December 2021**	**For the year ended 31 December 2020**	**Year-on-year change**
	RMB'000	*RMB'000*	*RMB'000*	*%*
	(unaudited)	*(audited)*	*(audited)*	
Total operating income	631,297	1,778,696	2,305,630	(22.85)
– *Trust business*	520,468	830,812	1,155,078	(28.07)
– *Proprietary business*	110,829	947,884	1,150,552	(17.61)
Net profit/(loss) attributable to Shareholders	(474,271)	468,519	627,818	(25.37)

	As at 30 June 2022	**As at 31 December 2021**	**As at 31 December 2020**	**Year-on-year change**
	RMB'000	*RMB'000*	*RMB'000*	*%*
	(unaudited)	*(audited)*	*(audited)*	
Net current liabilities	(1,186,944)	(2,305,271)	(2,804,063)	(17.79)
Total equity	10,173,748	10,651,218	10,175,124	4.68

As illustrated in the table above, the Group's total operating income was approximately RMB1,779 million for the year ended 31 December 2021 ("**FY2021**"), representing a decrease of approximately 22.85% as compared to that for the year ended 31 December 2020 ("**FY2020**"); and the Group's net profit attributable to Shareholders was approximately RMB469 million for FY2021, representing a decrease of approximately 25.37% as compared to that for FY2020. With reference to the 2021 Annual Report, the aforesaid decrease in total operating income was mainly due to (i) decrease in fee and commission income and interest income for FY2021 as compared to those for FY2020; and (ii) net decrease in fair value of financial assets at fair value through profit or loss and investments in associates measured at fair value for FY2021 (FY2020: net increase).

The aforesaid decrease in the Group's total operating income from FY2020 to FY2021, as partially offset by decrease in total operating expenses and increase in share of results of investments in associates accounted for using the equity accounting method from FY2020 to FY2021, led to decrease in net profit attributable to Shareholders for FY2021 as compared to that for FY2020.

The Group's total operating income was approximately RMB631 million for the six months ended 30 June 2022 ("**1H2022**"), representing a decrease of approximately 37.51% as compared to that for the corresponding period in 2021. With reference to the 2022 Interim

Report, such decrease was mainly due to the decrease in interest income from proprietary business, partially offset by the increase in income from trust business as a result of the increase in the scale of assets under management.

The Group recorded net loss attributable to Shareholders of approximately RMB474 million for 1H2022 as opposed to the net profit attributable to Shareholders of approximately RMB401 million for the corresponding period in 2021. With reference to the 2022 Interim Report, the turnaround from profit-making position for the six months ended 30 June 2021 to loss-making position for 1H2022 was mainly due to (i) decrease in total operating income as aforementioned; (ii) increase in net impairment losses on financial assets; (iii) increase in staff costs and administrative expenses; and (iv) decrease in share of results of investment in associates, as partially offset by income tax credit recorded as a result of the loss before income tax recorded by the Group for 1H2022.

With reference to the 2022 Interim Report, the Group's current liabilities exceeded its current assets by approximately RMB1,187 million as at 30 June 2022. In addition, as at 30 June 2022, the Group had cash and bank balances of approximately RMB186 million. These conditions may cast significant doubt regarding the Group's ability to continue as a going concern.

With reference to the 2022 Interim Report, under the guidance of the "14th Five-Year Plan", the Company will take the initiative to comply with regulatory orientation, adhere to the two-wheel drive of "standard product investment + non-standard financing", continue to improve and strengthen traditional businesses and fully embrace the capital market. It will make every effort to build the wealth management system of "allocation orientation", actively implement the concept of green development, put serving the real economy in a more prominent position and better serve the wealth management of residents, so as to become a respected professional institution of wealth management based on asset allocation.

Information on the Purchaser

With reference to the Board Letter, the Purchaser is a joint stock company established in the PRC on 31 December 2014 which is principally engaged in acquisition, management and disposal of nonperforming asset, asset management and provision of comprehensive financial services. It is owned as to approximately 82.29%, 2.73%, 1.36% and 1.09% by Lucion Group (the controlling Shareholder), Jinan Caijin Investment Co., Ltd., the Company and CNPC Assets Management, respectively, and therefore a non-wholly owned subsidiary of Lucion Group. The Purchaser is a connected person of the Company.

Information on Ruiyuan No.61 Debt

With reference to the Board Letter, Ruiyuan No.61 Debt represents the rights to claim the non-performing debts and the rights to enforce the collaterals of the non-performing debts under the trust loan agreements and guarantee agreements (i.e. the Ruiyuan Trust Loans) in connection with the Ruiyuan No.61 Trust Scheme, which is a trust scheme established in April

2017. The Company is the trustee of the Ruiyuan No.61 Trust Scheme and the lender of the Ruiyuan Trust Loans. The principal amount together with the interest of the Ruiyuan Trust Loans (less the deposit of RMB45 million) is approximately RMB5,496.35 million (the "**Principal & Interest**"). The assets pledged or mortgaged under the Ruiyuan Trust Loans (i.e. the Collaterals) consist of: (a) six villas (with a total gross floor area of approximately 9,891.71 square metres) located in Chaoyang District, Beijing, the PRC (the "**Properties**"); (b) land-use rights of a plot of land for residential purpose (approximately 80,313.57 square metres) located in Chaoyang District, Beijing, the PRC (the "**Land**"); and (c) 100% equity interest in the borrower which is a company principally engaged in the development of a residential property project located in Chaoyang District, Beijing, the PRC.

Reasons for and benefits of the Debt Transfer

With reference to the Board Letter, Ruiyuan No.61 Debt has become non-performing assets of the Company, and provision for impairment losses of approximately RMB133.2 million was made in connection with the Ruiyuan Trust Loans as at 30 June 2022. The Company has been exploring possible solutions to recover the Ruiyuan No.61 Debt and mitigate the risks arising since it became the Company's non-performing asset. The Company failed to reach any consensus with the borrower on the disposal of the Properties and the Land comprising the Collaterals. The Company also tried to make enquiries with two real estate developers to explore possibility of transferring the Collaterals but did not make any progress as neither of them indicated any interest in the Collaterals. Therefore, the Company can only enforce the Collaterals by taking possession itself or disposal to third parties through judicial auctions. Such actions involve complex legal procedures and potential time costs and expenses, and the enforcement results may not be favourable to the Company due to the instability in the policy and macroeconomic environment faced by the real estate industry. Furthermore, it is not practicable for the Company to take possession of the Collaterals as it is never the intention for the Company to engage in real estate development in the PRC which requires specific expertise. Indeed, the Company completed its internal approval procedures to initiate legal actions against the Collaterals and take appropriate judicial measures such as asset preservation. However, the Company decided not to proceed after considering the relevant legal expenses of approximately RMB80 million and timing for obtaining a favourable order and completing the enforcement (which may take at least three to five years).

The Company is of the view that even the Consideration of Debt Transfer is lower than the carrying amount of the Ruiyuan No.61 Debt, there is still a strong initiative for it to proceed with the Debt Transfer. It is expected that the Company will need to make further provision for impairment losses after periodically reviewing the value of the Collaterals if the borrower is not able to repay the defaulted loan in full.

As aforementioned, the Group's current liabilities exceeded its current assets by approximately RMB1,187 million as at 30 June 2022. In addition, as at 30 June 2022, the Group had cash and bank balances of approximately RMB186 million. These conditions may cast significant doubt regarding the Group's ability to continue as a going concern.

With reference to the Board Letter, the Company is expected to recognise loss of approximately RMB1,669 million from the Debt Transfer, which was estimated based on (i) the Consideration of Debt Transfer of RMB2,700 million; (ii) the sum of the carrying amounts of the Ruiyuan No.61 Debt as at 30 June 2022 of approximately RMB4,366.8 million; and (iii) the relevant transaction expenditures and taxation of approximately RMB2.2 million.

We noticed that the Consideration of Debt Transfer of RMB2,700 million is lower than (i) the Principal & Interest of approximately RMB5,496.35 million; (ii) the carrying amount of the Ruiyuan No.61 Debt of approximately RMB4,366.8 million as at 30 June 2022; and (iii) the appraisal value of the Collateral for the purpose of going through Public Tender Procedures of approximately RMB4,501.8 million as at 31 December 2021.

In light of the above, we further discussed with the Company regarding the feasibility of enforcing the Collaterals and researched for the following market data in relation to the real estate market in Beijing (where the Properties and the Land locate):

Outlook of the real estate market in Beijing

(a) Average price of commercial housing traded in Beijing

Set out below are the average price of commercial housing traded in Beijing from 2017 to 2021 and for the period from January to October 2022 ("**10M2022**"), published by Wind Financial Terminal (according to the website of Wind Financial Terminal, Wind was founded in 1994 and is dedicated to provide accurate and real-time information, as well as sophisticated communication platforms for financial professionals. In the PRC, Wind serves more than 90% of financial institutions including hedge funds assets management firms, securities companies, insurance companies, banks, research institutions, and government regulatory bodies):

	2017	**2018**	**2019**	**2020**	**2021**	**January to October 2022**
Average price of commercial housing traded in Beijing *(RMB per square metre)*	44,050	46,163	47,036	48,394	51,324	50,718

As shown in the above table, there was year-on-year increase in the average price of commercial housing traded in Beijing for each of the year 2018, 2019, 2020 and 2021. Nevertheless, the average price of commercial housing traded in Beijing for 10M2022 decreased as compared to that for 2021.

(b) Commercial housing traded in Beijing

Set out below are the number of commercial housing and total floor area of commercial housing traded in Beijing from 2017 to 2021 and for 10M2022, published by Wind Financial Terminal:

	2017	**2018**	**2019**	**2020**	**2021**	**January to October 2022**	**January to October 2021**
Number of commercial housing traded in Beijing	16,227	9,283	9,014	13,102	21,387	15,780	17,698
Total floor area of commercial housing traded in Beijing *(square metre)*	2,068,304	1,371,474	1,425,352	1,868,672	2,722,044	1,970,191	2,236,478

As shown in the above table, there was year-on-year increase for (i) the number of commercial housing traded in Beijing for each of the year 2020 and 2021; and (ii) the total floor area of commercial housing traded in Beijing for each of the year 2019, 2020 and 2021.

Nevertheless, both the number and total floor area of commercial housing traded in Beijing for 10M2022 decreased as compared to those for the corresponding period in 2021.

(c) Total floor area of residential land lots transacted in Beijing

Set out below are the total floor area of residential land lots transacted in Beijing from 2017 to 2021 and for 10M2022, published by Wind Financial Terminal:

	2017	**2018**	**2019**	**2020**	**2021**	**January to October 2022**	**January to October 2021**
Total floor area of residential land lots transacted in Beijing	5,572,027	3,478,649	3,260,585	2,819,973	3,376,680	2,336,050	2,976,200

As shown in the above table, there was year-on-year decrease for the total floor area of residential land lots transacted in Beijing for each of the year 2018, 2019 and 2020. After the total floor area of residential land lots transacted in Beijing recovered to 3,376,680 square metres for year 2021, the total floor area of residential land lots transacted in Beijing for 10M2022 decreased as compared to that for the corresponding period in 2021.

The above findings indicated the uncertainty in the recent real estate market in Beijing.

Taking into account the uncertainty in the recent real estate market in Beijing and the factors considered by the Company before proceeding with the Debt Transfer as mentioned above, in particular,

(i) enforcing the Collaterals by taking possession itself or disposal to third parties through judicial auctions involve complex legal procedures and potential time costs and expenses (estimated relevant legal expenses of approximately RMB80 million and it may take at least three to five years for obtaining a favourable order and completing the enforcement);

(ii) the Company tried to make enquiries with two real estate developers to explore possibility of transferring the Collaterals but did not make any progress as neither of them indicated any interest in the Collaterals; and

(iii) it is not practicable for the Company to take possession of the Collaterals as it is never the intention for the Company to engage in real estate development in the PRC which requires specific expertise,

we consider that it is reasonable for the Company to proceed with the Debt Transfer instead of going through legal proceedings and enforcing the Collaterals and it is in the interest of the Company and the Shareholders as a whole.

Use of proceeds

With reference to the Board Letter, the gross proceeds from the Debt Transfer are expected to be RMB2,700 million and the net proceeds (after deduction of related transaction expenses) are expected to be RMB2,698 million, which will be applied to replenish the Company's working capital and optimise the financial and regulatory indicators applicable to the Company. The Company intends to apply:

(i) approximately RMB700 million for the investment in the Company's self-issued trust products to support the active transformation of its trust business following the regulatory guidance, with an estimated investment yield of 3% to 8% based on historical performance;

(ii) approximately RMB1,000 million for the replenishment of its working capital given the Company, as a trust company, shall periodically monitor its risk-based capital in accordance with the regulations promulgated by the CBIRC; and

(iii) approximately RMB1,000 million for the partial repayment of the interest-bearing loans granted by China Trust Protection Fund Co., Ltd. to the Company.

The above uses of proceeds from the Debt Transfer can facilitate the Group's business operation and development.

Having considered the above, we consider that the Debt Transfer is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Debt Transfer

Set out below is the principal terms of the Debt Transfer under the Transfer Agreement, details of which are set out under the section headed "3. Transfer Agreement" of the Board Letter.

Date

14 November 2022

Parties

(i) The Company; and

(ii) The Purchaser

Disposal

Pursuant to the Transfer Agreement, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Ruiyuan No.61 Debt, being the rights to claim the non-performing debts and the rights to enforce the collaterals of the non-performing debts under the trust loan agreements and guarantee agreements in connection with the Ruiyuan No.61 Trust Scheme.

Consideration

The Consideration of Debt Transfer payable by the Purchaser is RMB2,700,000,000.

With reference to the Board Letter, the Company conducted the Debt Transfer under Public Tender Procedures with initial listed price determined with reference to the appraised value of the Collaterals (i.e. approximately RMB4,501.8 million). During the Publication Period, interested bidders were invited to indicate their intentions to purchase the Ruiyuan No.61 Debt and register themselves as an interested bidder. The Purchaser succeeded in the open bid in relation to the Debt Transfer.

Upon our enquiry, the Directors advised us that:

(i) The Company initiated the Public Tender Procedures for the transfer of the Ruiyuan No.61 Debt at the listed price of approximately RMB4,501.8 million.

(ii) Since no bidder indicated any interest in the Ruiyuan No.61 Debt, the Company adjusted the listed price to RMB2,700 million in accordance with the Public Tender Procedures. The adjusted listed price conforms with the quotations (ranged from RMB2,500 million to RMB2,700 million) (the "**Enquired Quotations**") obtained by the Company through making enquiries with three asset management companies independent from the Company that are engaged in management of distressed assets to understand market expectation on the transfer price of the Ruiyuan No.61 Debt.

(iii) the Purchaser is the only participant under the Public Tender Procedures and quoted RMB2,700 million for the Ruiyuan No.61 Debt.

In view of the above, the Consideration of Debt Transfer represents the "market price" through the Public Tender Procedures and conforms with the Enquired Quotations.

With reference to the Board Letter, the Company also conducted research in the differences between the listed prices and final transfer prices of non-performing assets that are similar to the Ruiyuan No.61 Debt transacted through public tender procedures by reviewing the details of over a hundred disposal transactions of non-performing assets with similar nature since 2019 available from public domains, and noted that the final transfer prices are generally below 40% of the listed prices for non-performing assets.

For our due diligence purpose, we obtained the list of transactions of non-performing assets reviewed by the Company and noted that (i) the Company reviewed over 100 transactions of non-performing assets from 1 June 2019 to the Agreement Date listed on Ali Asset* (阿里資產) (https://zc-paimai.taobao.com/zc/), an online auction platform under "Taobao Marketplace" brand operating by Alibaba Group Holding Limited (Stock code: 9988.HK & BABA.NYSE) and its subsidiaries and consolidated entities. The assets listed on Ali Assets include, among other things, assets under judicial auction, assets taken to be auction under bankruptcy and financial instruments including equity interest, debt interest, real estates and land, machineries and vehicles, and others; (ii) among the transactions reviewed by the Company, there were 11 transactions with transaction prices of over RMB1 billion (the "**Reference Transactions**"); and (iii) the discount of the transaction price to the listed price of the Reference Transactions ranged from approximately 5.35% to 89.54%, with an average of approximately 48.48%. The discount of approximately 40.02% as represented by the Consideration of the Debt Transfer of RMB2,700 million to the initial listed price of approximately RMB4,501.8 million under the Public Tender Procedures is within the aforesaid discounts range and is lower than the average of the aforesaid discounts.

In addition, we obtained from the Company a list of non-performing debt disposals conducted by the Group from 1 January 2014 (being the commencement date of the track record period for the purpose of the Company's prospectus dated 28 November 2017) to the Agreement Date. We noted that there were 17 non-performing debts disposed under the list, with considerations representing discounts ranged from nil to approximately 99.60% (with average of approximately 53.06%) to their respective then outstanding aggregated principal and interest amounts. The discount of approximately 50.88% as represented by the Consideration of the Debt Transfer of RMB2,700 million to the Principal & Interest of approximately RMB5,496.35 million is within the aforesaid discounts range and is lower than the average of the aforesaid discounts.

Given the above, we are of the view that the Consideration of the Debt Transfer is fair and reasonable.

Payment terms

Pursuant to the Transfer Agreement, the Consideration of Debt Transfer shall be payable by the Purchaser to the Company in cash according to the following schedule:

(i) **initial deposit:** the Purchaser has already paid an initial deposit in the amount of RMB540,000,000 to SFATC for participating in the Public Tender Procedures, and such amount shall be applied towards payment of the Consideration of Debt Transfer;

(ii) **initial payment:** within five business days after the execution of the Transfer Agreement, the Purchaser shall pay the initial payment in the amount of RMB1,350,000,000 to an account designated by the Company; and

(iii) **remaining consideration:** after all conditions precedent in the Transfer Agreement have been fulfilled, the Purchaser shall pay the balance of the Consideration of Debt Transfer in the amount of RMB810,000,000 to an account designated by the Company on or before 31 March 2023.

Taking into account the principal terms of the Debt Transfer as set out above, we consider that the terms of the Debt Transfer are fair and reasonable.

Possible financial effects of the Debt Transfer

With reference to the Board Letter, the Company accounted the Ruiyuan No.61 Debt under "loans to customers" in its financial statements. Upon Completion of the Debt Transfer, if materialised, the sum of the loan to customers is expected to be reduced by approximately RMB4,366.8 million, the total assets of the Company are expected to decrease by approximately RMB1,702.5 million, the total liabilities of the Company is expected to decrease by RMB450.7 million (estimated based on the decrease in tax payable as a result of the disposal loss and the transaction expenses), and the Company is expected to recognise a corresponding loss of approximately RMB1,669.0 million.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Debt Transfer.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Debt Transfer are on normal commercial terms and are fair and reasonable; and (ii) the Debt Transfer is conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Debt Transfer and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *for identification purposes only*

CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2019, 2020, 2021 AND THE SIX MONTHS ENDED 30 JUNE 2022

Financial information of the Group for each of the years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022 has been set out in the following documents and is available on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.sitic.com.cn):

– the annual report of the Company for the year ended 31 December 2019 published on 26 April 2020 from pages 155 to 272 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0426/2020042600219.pdf)

– the annual report of the Company for the year ended 31 December 2020 published on 25 April 2021 from pages 153 to 262 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0425/2021042500081.pdf)

– the annual report of the Company for the year ended 31 December 2021 published on 19 April 2022 from pages 160 to 273 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0419/2022041901666.pdf)

– The interim report of the Company for the six months ended 30 June 2022 published on 16 September 2022 from pages 70 to 127 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0916/2022091600355.pdf)

INDEBTEDNESS

As at the close of business on 31 October 2022, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding unsecured and guaranteed borrowings of approximately RMB2,000 million with accrued interest of RMB15.31 million. The Group (as the lessee) has lease liabilities of approximately RMB63.61 million which were unsecured and unguaranteed.

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. Save as disclosed above, as at the close of business on 31 October 2022, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account (i) consideration from the Debt Transfer, and (ii) the current internal resources, the Group would have sufficient working capital for its current needs for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

FINANCIAL AND BUSINESS PROSPECTS

Since 2022, global inflation has remained at a high level. The central banks of major developed economies accelerated and strengthened to tighten their monetary policies. This, coupled with the impact of resurgence of the pandemic, geopolitical conflicts and energy and food crisis, weakened the growth momentum of the world economy and intensified volatility of the international financial market. In the first half of 2022, overwhelming factors such as the complex and changing international environment and the spread of pandemic in China increased the downward pressure on China's economy. In response, China effectively coordinated pandemic prevention and control as well as socioeconomic development, and strengthened adjustment of macro policies. Since May 2022, with the positive results achieved in pandemic prevention and control, a series of growth stabilising measures have also shown results, and the economic operation has shown a trend of stabilisation and recovery.

China's financial industry conscientiously implemented the decisions and deployments of the Party Central Committee, the State Council and regulatory departments, closely focused on the three tasks of serving the real economy, preventing and controlling financial risks and deepening financial reform. In accordance with the requirements of "preventing the COVID-19 outbreak, stabilising the economy, and realising development security", the industry took the initiative to strive forward with the general tone of seeking improvement in stability, and resolutely supported the stabilisation of the economic market for effective prevention and control on financial risks. New achievements were made in all aspects of work by continuous in-depth financial reform and practical improvement in financial services.

2022 is the first year of official launch of the new asset management regulations. Facing the complex and changing external environment, China's trust industry has adhered to the general tone of "pursuing progress while ensuring stability", followed the regulatory guidance, carefully planned business transformation, made great efforts to optimise business structure and actively grasped new opportunities for development, leading to an increase in capital strength of the industry and pressure-resistant size of trust assets and improvement in structure of trust assets in stability. As at the end of the second quarter of 2022, the balance of trust assets managed by China's trust industry was RMB21.11 trillion, the structure of assets, the ways of allocation and the application of the fund has continued to be optimised, capital market business has developed rapidly, the business volume and quality have increased, the ability to serve the real economy has been continuously strengthened, and the business transformation has achieved new progress.

There will be no change to the principal business of the Group as a result of the Disposal. The Group's business segments are (i) trust business and (ii) proprietary business. Trust business is the Group's main business. As the trustee, the Group accepts entrustment of funds and/or property from its trustor clients and manages such entrusted funds and/or property to satisfy its trustor clients' investment and wealth management needs, as well as its counterparty clients' financing needs. The Group's proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business to maintain and increase the value of its proprietary assets.

Set out below is the management discussion and analysis of the Remaining Group for the three financial years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022. Unless otherwise defined, terms used herein shall have the same meanings as those described in the 2019 annual report, 2020 annual report, 2021 annual report and 2022 interim report.

FOR THE YEAR ENDED 31 DECEMBER 2019

BUSINESS OVERVIEW

In 2019, the Group achieved operating income with an amount of RMB1,886.7 million, representing a year-on-year increase of 11.3%. Meanwhile, the net profit attributable to shareholders of the Company was RMB663.9 million, representing a year-on-year decrease of 23.9%, mainly due to the combined influence of a year-on-year decrease in the net gains on disposal of associates held by consolidated structural entities, interest income and other operating income, and a year-on-year increase in fee and commission income, net changes in fair value on financial assets at fair value through profit or loss ("**FVPL**") and investment in associates measured at fair value, staff costs and loan impairment charges and other credit risk provision. In 2019, the income from the trust business and proprietary business of the Group accounted for 51.7% and 48.3% of the total revenue of the Group, respectively.

Trust Business

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

Proprietary Business

In 2019, in order to reasonably allocate its own funds, satisfy the layout requirements of domestic business strategic development planning and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, medium-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between its proprietary business and the trust business, actively implemented the "investment and loan linkage mechanism", and provided great support for the transformation and innovation of the "equity + debts" trust business. Secondly, the Company fully utilised its qualification to operate its equity investment business with its proprietary assets and participated in the establishment of venture capital funds, in a bid to seek proprietary business transformation and development, and foster new growth engines. Thirdly, with a full awareness of the current landscape, the Company actively pushed forward the transformation for First-Trust Fund Management Co. Ltd.* (泰信基金管理有限公司) ("**First-Trust Fund**") and focused on the optimisation of the layout of the financial equity investment business. Fourthly, with liquidity being assured, short term operations such as diversified investments, government bonds purchased under agreements to resell with liquidity, purchase of monetary fund and dedicated account management for overseas assets were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Fifthly, the Company strengthened exchanges and communication with financial companies stationed in Hong Kong, actively explore solutions to open up domestic and overseas asset allocation channels, and laid a solid foundation for overseas expansion. The Company recorded a segment income of RMB970.6 million from its proprietary business in 2019, representing a year-on-year increase of 9.9%, mainly due to the increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value realised from the segment of proprietary business of the Company from a loss of RMB32.3 million in 2018 to an income of RMB300.0 million in 2019, investment income increased from loss of RMB25.2 million in 2018 to income of RMB14.2 million in 2019, partially offset by the net gains on disposal of associates held by consolidated structured entities of RMB160.9 million in 2018 and only a small amount of gain was recorded in 2019, interest income decreased from RMB646.8 million in 2018 to RMB528.6 million in 2019.

Allocation of Proprietary Assets

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

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

Monetary Assets

Average investment return of the Company's monetary assets (calculated as the total of investment income (in terms of interest income received), annualised as a percentage of average investment balance in such monetary assets, where appropriate) was 2.0% and 1.5% for the years ended 31 December 2018 and 31 December 2019, respectively. The decrease in average investment return was due to the decrease in the average investment amount of government bonds purchased under agreements to resell in 2019 and the funds deposited in overseas banks as compared with the same period last year.

Securities Investments

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the year ended 31 December 2019, the average balance of the Company's investments in equity products increased by 28.2% from RMB410.4 million in 2018 to RMB526.0 million in 2019; the average balance of investments in trust schemes increased by 8.7% from RMB5,272.0 million in 2018 to RMB5,730.7 million in 2019; and the average balance of the Company's investments in asset management products increased by 2.1% from RMB150.6 million in 2018 to RMB153.8 million in 2019.

Long-Term Equity Investments

The Company made strategic long-term investments in a number of financial institutions, which helped the Company establish stronger business relationships with these financial institutions and created synergies for its business operations. The 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 average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 2.4% and 3.0% for the years ended 31 December 2018 and 31 December 2019, respectively. The increase in average return on long-term equity investments in 2019 as compared to that of 2018 was primarily due to the increase in dividend income from the associates of the Company in 2019.

Proprietary Loans

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

Trust Industry Protection Fund

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

FINANCIAL OVERVIEW

Consolidated Statement of Comprehensive Income Analysis

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

Total Operating Income

Fee and Commission Income

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

Interest Income

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

(1) The Group's interest income from loans to customers decreased by 16.5% from RMB601.8 million in 2018 to RMB502.4 million in 2019, mainly due to the decrease in scale of the loans granted under the consolidated trust schemes for which the Group recorded interest income in 2019.

(2) The Group's interest income from financial assets purchased under resale agreements decreased by 50.2% from RMB17.9 million in 2018 to RMB8.9 million in 2019, primarily due to the decrease in the Company's average investment amount of government bonds purchased under agreements to resell in 2019 as compared to the same period last year.

(3) The Group's interest income from cash and bank deposits balance decreased by 59.1% from RMB11.7 million in 2018 to RMB4.8 million in 2019, primary due to the decrease in deposit with foreign banks for which the Group recorded interest income recorded by the Group in 2019.

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

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

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

Investment Income/(Loss)

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

Net Gains on Disposal of Associates

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

Total Operating Expenses

Interest Expenses

The Group's interest expenses represented (i) interest paid to China Trust Protection Fund; (ii) interest paid for inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts after offsetting the impairment losses attributable to such third-party beneficiaries.

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

Staff Costs (including Directors' and Supervisors' Emoluments)

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

Tax and Surcharges

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

Other Operating Expenses

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

Impairment Losses on Assets

The loan impairment charges and other credit risk provision of the Group increased by 211.6% from RMB220.8 million in 2018 to RMB688.1 million in 2019, which was primarily due to the increase in impairment allowance for loans to customer held by the Group.

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

Share of Results of Investments in Associates Accounted for Using the Equity Accounting Method

The Group's share of results of investments in associates accounted for using the equity accounting method decreased from the gains of RMB132.2 million in 2018 to RMB123.7 million in 2019.

Operating Profit before Income Tax and Operating Margin

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

Income Tax Expense

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

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

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

Segment Results of Operations

Trust Business

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

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

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

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

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

Proprietary Business

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

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

The increase in segment operating expenses from the proprietary business was mainly due to the increase in loan impairment charges and other credit risk provision from RMB220.8 million in 2018 to RMB688.1 million in 2019. Loan impairment charges and other credit risk provision was partially offset by the decrease in interest expenses from RMB192.8 million in 2018 to RMB137.9 million in 2019, decrease in change in net assets attributable to other beneficiaries of consolidated structured entities from RMB19.8 million in 2018 to RMB0.5 million in 2019 and decrease in impairment losses on other assets from RMB33.1 million in 2018 to RMB13.7 million in 2019.

The increase in the segment income from the proprietary business was mainly due to (i) an increase in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB32.3 million in 2018 to RMB300.0 million in 2019; (ii) an increase in investment income from a loss of RMB25.2 million in 2018 to an income of RMB14.2 million in 2019. The net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income were partially offset by the net gains of RMB160.9 million on disposal of associates held by consolidated structured entities in 2018 and only a small amount of such gain in 2019, and a decrease in interest income from RMB646.8 million in 2018 to RMB528.6 million in 2019.

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

Selected Consolidated Financial Positions

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

Assets

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

Loans to Customers

The 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 year ended 31 December 2019.

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 year ended 31 December 2019. The gross amount of such impaired loans increased by 13.7% from RMB1,375.4 million as at 31 December 2018 to RMB1,563.5 million as at 31 December 2019. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2018 and 31 December 2019 were RMB765.3 million and RMB742.5 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB470.3 million and RMB1,083.5 million for these impaired loans as at 31 December 2018 and 31 December 2019, respectively, representing 34.2% and 69.3% of the gross amount of those loans, respectively. The impairment allowances provided by the Group were provided in accordance with the provisions under IFRS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 17.9% and 17.3% of the Group's gross loans to customers as at 31 December 2018 and 31 December 2019, respectively.

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

As the vast majority of the Company's proprietary loans were granted to counterparty clients of the Company's financing trusts as bridge financing before proceeds of the loans from the Company's trusts were released to them, changes in the amount of such loans during the year ended 31 December 2019 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 accounting method or measured at fair value. The investments in associates increased from RMB2,108.8 million as at 31 December 2018 to RMB2,776.3 million as at 31 December 2019, primarily related to the increase in associates indirectly held by the Group through consolidated structured entities.

Financial Assets at FVPL

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

Cash and Bank Balance

As at 31 December 2018 and 31 December 2019, the Group's cash and bank balance amounted to RMB1,081.3 million and RMB964.4 million, respectively, of which RMB898.7 million and RMB866.9 million, respectively, were proprietary assets of the Group, and the remaining was cash and bank balance of the Group's consolidated trust schemes.

Trustee's Remuneration Receivable

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

The Group's trustee's remuneration receivable decreased by 15.0% from RMB251.8 million as at 31 December 2018 to RMB214.1 million as at 31 December 2019. The Company, as the trustee, has closely monitored the trust accounts of its unconsolidated trust schemes, and the Company is usually allowed to collect its trustee's remuneration in arrears in one or more instalments according to the Company's trust contracts. The Company is normally allowed only to receive trustee's remuneration after the trust has paid its quarterly dividends, and the Company expects to continue to have certain amount of trustee's remuneration receivable in the future. As at 29 February 2020, 12.3% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Resale Agreements

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

The Group's government bonds purchased under agreements to resell decreased by 88.4% from RMB95.1 million as at 31 December 2018 to RMB11.0 million as at 31 December 2019. These changes were due to the flexible adjustment of the business scale of the Group's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Group's government bonds purchased under agreements to resell as at 31 December 2018 and 31 December 2019, respectively.

Advance Payments

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

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Administrative Measures, counterparty clients of the Company's financing trusts should make contributions to the Trust Industry Protection Fund and the Company should collect the required contribution funds from its counterparty clients and pay to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the Company the contribution funds and any accrued interests and the Company then distributes them to the counterparty clients. From time to time, however, the Company may agree to pay such contribution funds on behalf of its counterparty clients, and in such circumstances, the Company will be entitled to keep the contribution funds and any accrued interests when they are returned to it by the Trust Industry Protection Fund upon liquidation of the relevant financing trusts. The Company adopts such practice in order to avoid any unnecessary payment transactions between itself and its counterparty clients and to provide better services. The Company will not be subject to the credit risk of its counterparty clients as a result of such practice because the contribution funds will be returned to the Company by the Trust Industry Protection Fund upon liquidation of the financing trusts. The Company recorded the amounts of contribution funds it has paid on behalf of its counterparty clients as contribution to the Trust Industry Protection Fund due from its counterparty clients, which amounted to RMB560.2 million and RMB540.0 million as at 31 December 2018 and 31 December 2019, respectively, among which RMB316.6 million and RMB349.5 million were classified as non-current assets, and RMB243.6 million and RMB190.5 million were classified as current assets. Instead of collecting such amounts from the counterparty clients before the liquidation of the financing trusts, the Company recovers such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. As at 31 December 2019, the Company has not encountered any difficulties in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of the Company's financing trusts.

Liabilities

As at 31 December 2018 and 31 December 2019, the Group's total liabilities amounted to RMB4,071.1 million and RMB4,761.9 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the year ended 31 December 2019 included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions), short-term borrowings, income tax payables, salary and welfare payable (both current and non-current portions) and other current liabilities. As at 31 December 2019, the net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, income tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 71.5%, 6.7%, 3.9%, 2.3% and 15.4% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) increased by 34.8% from RMB2,525.8 million as at 31 December 2018 to RMB3,404.7 million as at 31 December 2019. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the change in percentage of the Company's proprietary investment in such trust schemes.

Income Tax Payable

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

Other Current Liabilities

The Group's other current liabilities during the year ended 31 December 2019 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) (the "**NCSSF**"), and the Trust Industry Protection Fund collected from counterparty clients of the Company's financing trusts, value-added tax and surcharges for trusts, deferred trustee's remuneration and other tax payable.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB283.7 million as at 31 December 2018 to RMB296.1 million as at 31 December 2019.

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

The Notice in relation to the 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 Administration of Taxation of the PRC on 30 June 2017 (the "**VAT Notice**"). The VAT 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 VAT Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 31 December 2019, the outstanding VAT for trusts and the related surcharges amounted to RMB104.4 million.

Off-balance Sheet Arrangements

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

RISK MANAGEMENT

Credit Risk Management

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

During the year ended 31 December 2019, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the CBIRC, under the leadership of the Strategies and Risk Management Committee of the Board and the senior management, the Company focused on facilitating the realisation of strategic goals by improving credit risk management system and system establishment and reinforcing risk management over key areas so as to control and mitigate credit risks in full swing.

Credit Risk Management on Trust Business

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

Credit Risk Management on Proprietary Business

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

Market Risk Management

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. It mainly represents the volatility risk arising from price risk, interest rates risk and foreign exchange risk. During the year ended 31 December 2019, the Company managed such risk mainly through the Company's diversified and carefully selected investment portfolio and stringent investment decision-making mechanism.

Liquidity Risk Management

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

During the year ended 31 December 2019, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserve and financial assets that could be readily convertible into cash. The Company holds sufficient unrestricted cash at bank and in hand to satisfy the capital need for the daily operation of the Company.

CAPITAL MANAGEMENT

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

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

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

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

As at 31 December 2019, the Company's net capital was approximately RMB7.869 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB4.018 billion; the ratio of net capital to total risk-based capital was 195.83%, which is not lower than 100%; and the ratio of net capital to net asset was 80.61%, which is not lower than 40%.

FOR THE YEAR ENDED 31 DECEMBER 2020

BUSINESS OVERVIEW

In 2020, the Group achieved operating income with an amount of RMB2,305.6 million, representing a year-on-year increase of 22.2%; net profit attributable to shareholders of the Company was RMB755.1 million, representing a year-on-year increase of 13.7%, mainly due to the year-on-year increase of fee and commission income, interest income, investment income, net gains on disposal of associates and share of results of investments in associates accounted for using the equity accounting method, which was partially offset by the year-on-year decrease of net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, and the year-on-year increase of interest expenses and impairment losses of financial assets. 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.

Trust Business

In 2020, the Company took proactive actions to withstand the pandemic and respond to the changes in the domestic economic situation and regulatory policy environment. The Company, in the face of the pressure of shrinking trust size under strong regulation, continued to optimise its trust business structure, firmly returned to the origin of trust, stepped up the layout of business with a strong push for innovative business development that enabled to cultivate new business growth points.

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

Proprietary Business

In 2020, in order to reasonably optimise the allocation of its own funds, accelerate the strategic planning layout of oversea business, and improve the operation quality and efficiency of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and proactively made investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, actively implemented the investment and loan linkage mechanism, and provided great support for the transformation and innovation of the "equity + debt" trust business. Secondly, the Company continuously strengthened the investment of venture capital fund, and proactively supported the Shandong's regional economic development and replacement of old growth drivers with new ones in a bid to seek proprietary business transformation and development, and foster new profit growth point. Thirdly, the Company assessed the situation, actively promoted the transformation and development of First-Trust Fund, completed the equity transfer of China Heavy Automobile 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 government bonds purchased under agreements to resell, investment in monetary fund and cash management trust schemes were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Fifthly, the Company further strengthened exchanges and communication with financial enterprises in Hong Kong, and laid a solid foundation for overseas businesses. The Company recorded the segment income of RMB1,519.4 million from its proprietary business in 2020, representing a year-on-year increase of 56.6%, mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) net gains on disposal of associates increased from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income in 2020 was RMB53.9 million (among which RMB51.4 million is government subsidy), and only a small amount of such income was generated in 2019; and (v) an increase in share of results of investments in associates accounted for using the equity accounting 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 results of investments in associates accounted for using the equity accounting method were partially offset by a decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB300.0 million in the 2019 to RMB126.6 million in 2020.

Allocation of Proprietary Assets

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 purchased under agreements to resell in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of its trust business.

Monetary Assets

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 Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the year ended 31 December 2020, 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 17.7% from RMB5,730.7 million in 2019 to RMB4,718.5 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 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.

On 14 December 2020, the Company entered into an equity transfer agreement with Lucion Group to sell 45% equity interests of First-Trust Fund. The disposal was completed in 2021.

Proprietary Loans

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

Trust Industry Protection Fund

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

FINANCIAL OVERVIEW

Consolidated Statement of Comprehensive Income Analysis

In 2020, the net profit attributable to shareholders of the Company amounted to RMB755.1 million, which increased by RMB91.2 million as compared to the corresponding period of last year, representing an increase of 13.7%.

Total Operating Income

Fee and Commission Income

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 year ended 31 December 2020) of the Company in 2020.

Interest Income

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

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

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

Investment Income

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

Net Gains on Disposal of Associates

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

Total Operating Expenses

Interest Expenses

The Group's interest expenses represented (i) interest paid to China Trust Protection Fund; (ii) interest paid for inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third- party beneficiaries).

The Group's interest expenses in 2020 were RMB493.2 million, representing an increase of 257.7% 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 Company's staff costs in 2020 were RMB139.3 million, representing a decrease of 26.5% as compared to RMB189.4 million in 2019, primarily due to the decrease in salaries and bonuses.

Impairment Losses on Financial Assets

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

Share of Results of Investments in Associates Accounted for Using the Equity Accounting Method

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

Operating Profit before Income Tax and Operating Margin

The Group's profit before income tax decreased by 2.0% from RMB877.8 million in 2019 to RMB860.3 million in 2020, and the Group's operating profit margin decreased from 46.5% in 2019 to 37.3% in 2020.

Income Tax Expense

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

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

The net profit attributable to the shareholders of the Company increased by 13.7% from RMB663.9 million in 2019 to RMB755.1 million in 2020. The Group's net profit margin decreased from 35.2% in 2019 to 32.8% in 2020.

Segment Results of Operations

Trust Business

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

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

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

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

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

Proprietary Business

The segment income from the Group's proprietary business mainly consists of the interest income from loans to customers, interest income from financial investment – amortised cost and financial assets purchased under resale agreements, interest income from contribution to Trust Industry Protection Fund, net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income, net gains on disposal of associates and share of results of investments in associates accounted for using the equity accounting 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 margin before income tax for the Group's proprietary business decrease from a gain of RMB106.2 million in 2019 to a loss of RMB79.3 million in 2020, primarily due to an increase of 56.6% in the segment operating income from the proprietary business from RMB970.6 million in 2019 to RMB1,519.4 million in 2020, which was partially offset by the increase of 85.0% in the segment operating expenses from the proprietary business from RMB864.4 million in 2019 to RMB1,598.7 million in 2020.

The increase in the segment income from the proprietary business was mainly due to (i) an increase in interest income from RMB528.6 million in 2019 to RMB714.0 million in 2020; (ii) an increase in investment income from RMB14.2 million in 2019 to RMB146.2 million in 2020; (iii) net gains on disposal of associates increased from RMB3.1 million in 2019 to RMB109.9 million in 2020; (iv) other operating income was RMB53.9 million (among which RMB51.4 million is government subsidy) in 2020, and only a small amount of such income was generated in 2019; and (v) an increase in share of results of investments in associates accounted for using the equity accounting 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 results of investments in associates accounted for using the equity accounting method were partially offset by the decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB300.0 million in 2019 to RMB126.6 million in 2020.

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 RMB493.2 million in 2020; (ii) an increase in the impairment losses on financial assets from RMB688.1 million in 2019 to RMB1,058.8 million in 2020.

As a result of the foregoing, the segment margin of the Group's proprietary business increased from 10.9% in 2019 to -5.2% in 2020.

Selected Consolidated Financial Positions

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

Assets

As at 31 December 2019 and 31 December 2020, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB14,572.3 million and RMB17,469.5 million, respectively, of which the total assets of the Company amounted to RMB11,200.6 million and RMB11,098.5 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investment – amortised cost, (iv) financial assets at FVPL, (v) cash and bank balances, (vi) trustee's remuneration receivable and (vii) financial assets purchased under resale agreements. As at 31 December 2020, the above-mentioned major assets accounted for 47.2%, 18.6%, 0.3%, 12.8%, 5.5%, 0.9% and 0.6%, respectively, of the total assets of the Group.

Loans to Customers

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 year ended 31 December 2020.

Some of the loans granted by the Group's trust schemes to which it made proprietary investment and consolidated into the Company's financial statements were identified as impaired during the year ended 31 December 2020. The gross amount of such impaired loans increased by 165.9% from RMB1,563.5 million as at 31 December 2019 to RMB4,157.3 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 RMB2,782.4 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 34.2% 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 42.7% 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 10.2% and 12.2% of the gross amount of the Group's loans to customers and the net amount of the Group's loans to customers, respectively.

As the Company's proprietary loans were granted to counterparty clients of the Company, changes in the amount of such loans during the year ended 31 December 2020 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 investments in associates increased by 16.8% from RMB2,776.3 million as at 31 December 2019 to RMB3,242.8 million as at 31 December 2020, primarily related to the increase investment in associates held by the Group.

Financial Assets at FVPL

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

Cash and Bank Balance

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

Trustee's Remuneration Receivable

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

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

Financial Assets Purchased under Resale Agreements

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

The Group's government bonds purchased under agreements to resell increased 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 bonds purchased under agreements to resell as at 31 December 2019 and 31 December 2020, respectively.

Contribution to Trust Industry Protection Fund Due from Counterparty Clients

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 2020, 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 RMB7,167.1 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 year ended 31 December 2020 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 85.4%, 1.4%, 1.5% and 11.7% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) increased by 79.7% from RMB3,404.7 million as at 31 December 2019 to RMB6,118.2 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 year ended 31 December 2020 consisted mainly of proceeds due to the NCSSF, 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 VAT 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 VAT Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 31 December 2020, the outstanding VAT for trusts and the related surcharges amounted to RMB77.1 million.

Off-balance Sheet Arrangements

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

RISK MANAGEMENT

Credit Risk Management

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

During the year ended 31 December 2020, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the CBIRC, under the leadership of the Strategies and Risk Management Committee of the Board and the senior management, the Company focused on facilitating the realisation of strategic goals by improving credit risk management system and system establishment and reinforcing risk management over key areas so as to control and mitigate credit risks in full swing.

Credit Risk Management on Trust Business

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

Credit Risk Management on Proprietary Business

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

Market Risk Management

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. It mainly represents the volatility risk arising from price risk, interest rates risk and foreign exchange risk. During the year ended 31 December 2020, the Company managed such risk mainly through the Company's diversified and carefully selected investment portfolio and stringent investment decision-making mechanism.

Liquidity Risk Management

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

For the year ended 31 December 2020, the Company regularly forecasted its cash flow and monitored its short-term and long-term capital needs to ensure that it has sufficient cash reserves and financial assets that are readily convertible to cash. The Company holds sufficient unrestricted cash at bank and in hand to satisfy the capital need for the daily operation of the Company.

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 Measures for the Net Capital Administration. 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 RMB8.866 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.515 billion; the ratio of net capital to total risk-based capital was 252.23%, which is not lower than 100%; and the ratio of net capital to net asset was 86.84%, which is not lower than 40%.

FOR THE YEAR ENDED 31 DECEMBER 2021

BUSINESS OVERVIEW

In 2021, the Group achieved operating income with an amount of RMB1,696.1 million, representing a year-on-year decrease of 26.4%; net profit attributable to shareholders of the Company was RMB555.8 million, representing a year-on year decrease of 26.4%, mainly due to the year-on-year decrease of fee and commission income, interest income, net changes in fair value of financial assets at FVPL and investments in associates measured at fair value, which were partially offset by the year-on-year increase in investment income, net gains on disposal of associates and share of results of investments in associates accounted for using the equity accounting method, and the year-on-year decrease of impairment losses on financial assets, net of reversal. In 2021, the income from the trust business and proprietary business of the Group accounted for 38.2% and 61.8% of the total revenue of the Group, respectively.

Trust Business

In 2021, the AUM and income from trust business recorded a year-on-year decrease, and the income from actively managed trust in proportion of the fee and commission income of the total income from trust business maintained growth. The AUM of the Company decreased from RMB248,697 million as at 31 December 2020 to RMB156,450 million as at 31 December 2021, and the total number of trusts were 1,137 and 1,318, respectively, as at the respective dates. In 2021, the Company achieved income of trust business amounted to RMB830.8 million, indicating a year-on-year decrease of 28.1%. During the year ended 31 December 2021, revenue from the actively managed trust amounted to RMB686 million, accounting for 82.7% of the fee and commission income of the total income from trust business and indicating a year-on- year growth of 4.7 percentage points.

Real Estate Trusts

As at 31 December 2021, the Company had 24 existing equity investment projects (including "equity + debt" projects), of which the total scale of pure equity investment was RMB1.859 billion. The Company will actively respond to the national macro policies, actively comply with the regulatory guidance, scientifically study and judge the market situation, vigorously support the construction of long-term rental housing and affordable housing, and continue to serve the reasonable inelastic and improving housing needs of residents.

Capital Market Trusts

As at 31 December 2021, the Company's total size of existing capital market business was RMB43.136 billion. With the establishment of the Science and Technology Innovation Board, the Beijing Stock Exchange and the implementation of capital market deepening reform measures such as the comprehensive implementation of the stock issuance and registration system, the construction of China's multi-level capital market has been improved day by day, which provides a broad development platform and market space for trust companies to vigorously expand this kind of business.

Family Trusts

As at 31 December 2021, the Company had established nearly 1,100 family trusts, with an existing scale of nearly RMB22 billion, which has always been in the forefront of the industry in recent years. In 2021, the Company's family trust was awarded the "Gold Honor Award" and "2021 Chinese Family Office top 30" at the annual summit of China's asset management and wealth management industry. China's middle-class group is expanding gradually, and the number of high-net-worth clients is growing steadily. With the gradual improvement of supporting legal system and tax system, as the only financial instrument endowed by the laws and regulations with many core functions such as asset isolation, protection, inheritance and wealth management, the functionality and importance of family trust are being known and recognised by more high-net-worth individuals, and the development prospect and market space of family trust are broad.

Industrial and Commercial Enterprises Trusts

As at 31 December 2021, the existing industrial and commercial enterprises trust scale of the Company was RMB46.64 billion, and the counterparties were mainly central enterprises and state-owned enterprises with strong strength and high credit rating. Under the background of global outbreak, unsmooth circulation of industrial chain supply chain, rising commodity prices and new downward pressure on the economy, the Company will actively respond to the national call, flexibly use trust instruments, and increase its support to the real economy, especially small and medium-sized and micro enterprises, scientific and technological innovation, green development, "specialised and innovative" enterprises, industries with regional characteristics and advantages, and ecological protection in the Yellow River Basin, so as to help enhance the core competitiveness of manufacturing industry and regional economic development.

Infrastructure Trusts

As at 31 December 2021, the Company's existing infrastructure trust amounted to RMB7.21 billion, and its counterparties were mainly state-owned enterprises.

Consumer Finance Trusts

As at 31 December 2021, the Company had established consumer finance trusts totalling RMB5.490 billion, with an existing scale of RMB2.767 billion, providing consumption financial services to cumulative number of natural persons reaching 2.1687 million and established long-term and stable cooperative relations with many well-known and stable platforms with high credit rating in the industry. With the introduction of normative documents in the consumer finance industry, the business rules and business model of consumer finance have become clearer, which has laid a solid institutional foundation and provided broad development space for trust companies to standardise and steadily carry out consumer finance business.

Asset Securitisation Trusts

As at 31 December 2021, the Company, as the initiator and trustee of asset-backed securities, had set up 2 asset-backed securities projects with a cumulative scale of RMB7.501 billion, involving ABS, ABN, RMBS, etc. During the business process, the Company has established good cooperative relations with financial institutions including large securities companies, large commercial banks and many high-quality state-owned enterprises, and accumulated some experience in the screening and construction of underlying assets, asset transfer, information disclosure and trust affairs management. In the future, the Company will continuously improve its capabilities in asset pool construction, product structure design and pricing, and actively extend to underwriting, investment and other fields.

Charitable Trusts

In recent years, the Company has actively carried out charitable trust business, and has initially established a business model of cooperation with family trusts. As at 31 December 2021, the Company had established a total of 11 standardised charitable trusts with an existing scale of approximately RMB75 million. According to the wishes of the trustor, the Company has used a total of RMB9.4742 million of trust funds and 4,829 direct beneficiaries. The charitable projects spread all over Shandong, Fujian, Jiangsu, Yunnan and other provinces and cities, which strongly promoted the development of public welfare undertakings such as providing financial aid to students, offering financial help to the poor and alleviating poverty. The development of poverty alleviation and other public welfare undertakings has effectively met the needs of customers, social organisations and government departments in public welfare and charity and social service. It was awarded the "China Financial Brand Summit and Financial Corporate Social Responsibility Conference - Top Ten Social Responsibility Projects of the Year" in 2021 and the 14th "Integrity Trust" Best Charity Trust Product Award. In 2021, the Company set up a new "Datong No.10 Charity Trust" featuring active management, self-management, online fund-raising and extensive participation, and driving more forces to participate in charity.

Proprietary Business

In 2021, in order to reasonably optimise the allocation of its own funds and improve the operational standard of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and made reliable 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 standardised products and the transformation and innovation of the "equity + debt" trust business. Secondly, the Company assessed the situation, transferred shares of First-Trust Fund, and simplified the layout of financial equity investment, further focused on the main business of trust and served the transformation and development of the Company. Thirdly, with safety and liquidity being assured, short term operations such as diversified investment, efficient use of liquid funds for short-term operations such as government bonds purchased under agreements to resell, investment in monetary fund and cash management trust schemes were actively carried out to improve capital utilisation efficiency. The Company recorded segment income of RMB1,346.6 million from its proprietary business in 2021, representing a year-on-year decrease of 11.4%, mainly due to (i) a decrease in interest income from RMB714.0 million in 2020 to RMB457.1 million in 2021; (ii) a decrease in net changes in fair value on financial assets at FVPL and investments in associates measured at fair value from an income of RMB126.6 million in 2020 to a loss of RMB206.9 million in 2021. The interest income, net changes in fair value on financial assets at FVPL and investments in associates measured at fair value were partially offset by (i) an increase in investment income from RMB146.2 million in 2020 to RMB272.9 million in 2021; (ii) an increase in net gains on disposal of associates from RMB109.9 million in 2020 to RMB333.9 million in 2021; and (iii) an increase in share of results of investments in the associates accounted for using the equity accounting method from RMB368.9 million in 2020 to RMB481.3 million in 2021.

Allocation of Proprietary Assets

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 purchased under agreements to resell in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of its trust business.

Monetary Assets

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 1.3% and 1.4% for the years ended 31 December 2020 and 31 December 2021, respectively.

Securities Investments

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the year ended 31 December 2021, the average balance of the Company's investments in equity products increased by 22.1% from RMB677.1 million in 2020 to RMB826.7 million in 2021; the average balance of investments in trust schemes decreased by 7.2% from RMB4,718.5 million in 2020 to RMB4,377.3 million in 2021; the average balance of the Company's financial investments – amortised cost was RMB443.8 million in 2021; and the average balance of the Company's investments in asset management products increased by 7.4% from RMB138.4 million in 2020 to RMB148.7 million in 2021.

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 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 3.9% and 6.4% for the years ended 31 December 2020 and 31 December 2021, respectively. The increase in average return on long-term equity investments in 2021 as compared to that of 2020 was primarily due to the increase in dividend income from the associates of the Company in 2021.

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 2020 and 31 December 2021, the outstanding balance of the Company's proprietary loans were RMB994.0 million and RMB1,687.5 million, respectively.

Trust Industry Protection Fund

According to the Administrative Measures, 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 4.4% from RMB100.1 million as at 31 December 2020 to RMB104.5 million as at 31 December 2021.

FINANCIAL OVERVIEW

Consolidated Statement of Profit or Loss and Other Comprehensive Income Analysis

In 2021, the net profit attributable to shareholders of the Company amounted to RMB555.8 million, which decreased by RMB199.3 million as compared to the corresponding period of last year, representing decrease of 26.4%.

Total Operating Income

Fee and Commission Income

The Group's fee and commission income in 2021 was RMB829.7 million, representing a decrease of 28.0% as compared to RMB1,152.4 million in 2020. Such decrease was primarily due to a decrease in the Group's trustee's remuneration, which was caused by a decrease in the average AUM (average of the beginning balance and the ending balance of AUM during the year ended 31 December 2021) of the Company in 2021.

Interest Income

The Group's interest income in 2021 was RMB458.2 million, representing a decrease of 36.1% as compared to RMB716.6 million in 2020. Such decrease was primarily due to a decrease in the daily average of the scale of loans granted by the consolidated structured entities of the Group which recorded interest income in 2021, and the Group's interest income from loans to customers decreased by 37.2% from RMB695.9 million in 2020 to RMB437.1 million in 2021.

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

Net changes in fair value on financial assets at FVPL and investment in associates measured at fair value decreased from a gain of RMB126.6 million in 2020 to a loss of RMB206.9 million in 2021, primarily due to (i) the transfer of the income of the Group from changes in fair value recognised in previous years to investment income from the disposal of stocks, mutual funds and investments in associates at fair value; and (ii) the increase in the fair value of bonds held by the Group.

Investment Income

The Group's investment income in 2021 was RMB272.9 million, representing an increase of RMB126.7 million as compared to RMB146.2 million in 2020. Such increase was due to (i) the increase in dividends received from financial assets at FVPL; and (ii) more gains generated by the disposal of listed shares, mutual funds of the Group in 2021.

Net Gains on Disposal of Associates

In 2021, 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 RMB333.9 million. The gains obtained in 2020 was RMB109.9 million.

Total Operating Expenses

Interest Expenses

The Group's interest expenses represented (i) interest paid to China Trust Protection Fund; (ii) interest paid for inter-bank borrowings; and (iii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trusts (after offsetting the impairment losses attributable to such third- party beneficiaries).

The Group's interest expenses in 2021 were RMB382.2 million, representing a decrease of 22.5% as compared to RMB493.2 million in 2020, primarily due to a decrease 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), partially offset by the increase in interest expenses on borrowings from China Trust Protection Fund.

Staff Costs (including Directors and Supervisors' Emoluments)

The Company's staff costs in 2021 were RMB144.0 million, representing an increase of 3.4% as compared to RMB139.3 million in 2020, primarily due to the increase in pension costs, and other social security and welfare costs.

Impairment Losses on Financial Assets, Net of Reversal

Impairment losses on financial assets, net of reversal of the Group decreased by 22.2% from RMB1,058.8 million in 2020 to RMB823.4 million in 2021, which was primarily due to the provision for asset impairment made by the Group based on the principle of prudence in response to loans to customers and financial investments – amortised cost under the superimposed influence of macro economy situation, industry environment, credit environment and multiple rounds of pandemic in 2021.

Share of Results of Investments in Associates Accounted for Using the Equity Accounting Method

The Group's share of results of investments in associates accounted for using the equity accounting method increased by 30.5% from RMB368.9 million in 2020 to RMB481.3 million in 2021, primarily due to the increase in the net profit of certain investees.

Profit before Income Tax and Operating Margin

The Group's profit before income tax decreased by 35.8% from RMB860.3 million in 2020 to RMB552.5 million in 2021, and the Group's operating profit margin decreased from 37.3% in 2020 to 32.6% in 2021.

Income Tax Credit/(Expense)

The Company's income tax credit/(expense) changed from RMB105.2 million in 2020 to an income tax credit of RMB3.4 million in 2021, primarily due to (i) the decrease in profit before income tax of the Group; and (ii) the increase in the tax influenced by tax-free income in 2021 of the Group.

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

The net profit attributable to the shareholders of the Company decreased by 26.4% from RMB755.1 million in 2020 to RMB555.8 million in 2021. The Group's net profit margin remained stable as compared to 2020.

Segment Results of Operations

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. Segment operating expenses of the Group's trust business mainly consist of staff costs, depreciation and amortisation, tax and surcharges and administrative expenses that are related to the Group's trust business.

The segment profit before income tax for the Group's trust business decreased by 38.1% from RMB939.6 million in 2020 to RMB581.9 million in 2021, primarily due to a decrease of 28.1% in the segment income from the trust business from RMB1,155.1 million in 2020 to RMB830.8 million in 2021 and an increase of 15.5% in the segment operating expenses in the trust business from RMB215.5 million in 2020 to RMB248.9 million in 2021.

The decrease in the segment income from the trust business was mainly due to a decrease in the Group's fee and commission income from RMB1,152.4 million in 2020 to RMB829.7 million in 2021.

The increase in the segment operating expenses in the trust business was mainly due to an increase in administrative expenses related to the Group's trust business from RMB57.3 million in 2020 to RMB85.1 million in 2021.

As a result of the foregoing, the segment margin of the trust business decreased from 81.3% in 2020 to 70.0% in 2021.

Proprietary Business

The segment income from the Group's proprietary business mainly consists of the interest income from loans to customers, interest income from financial investment – amortised cost and financial assets purchased under resale agreements, interest income from contribution to Trust Industry Protection Fund, net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income, net gains on disposal of associates and share of results of investments in associates accounted for using the equity accounting 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, net of reversal.

The segment loss before income tax for the Group's proprietary business decreased from RMB79.3 million of loss in 2020 to RMB29.4 million of loss in 2021, primarily due to a decrease of 13.9% in the segment operating expenses from the proprietary business from RMB1,598.7 million in 2020 to RMB1,376.0 million in 2021, partially offset by the decrease of 11.4% in the segment income from the proprietary business from RMB1,519.4 million in 2020 to RMB1,346.6 million in 2021.

The decrease in segment operating expenses from the proprietary business was mainly due to a decrease in the impairment losses on financial assets, net of reversal from RMB1,058.8 million in 2020 to RMB823.4 million in 2021, which were partially offset by an increase in change in net assets attributable to other beneficiaries of consolidated structured entities from RMB16.6 million in 2020 to RMB151.5 million in 2021.

The decrease in the segment income from the proprietary business was mainly due to (i) a decrease in interest income from RMB714.0 million in 2020 to RMB457.1 million in 2021; and (ii) a decrease in net changes in fair value on financial assets at FVPL and investments in associates measured at fair value from an income of RMB126.6 million in 2020 to a loss of RMB206.9 million in 2021. The interest income, net changes in fair value on financial assets at FVPL and investments in associates measured at fair value were partially offset by (i) an increase in investment income from RMB146.2 million in 2020 to RMB272.9 million in 2021; (ii) an increase in net gains on disposal of associates from RMB109.9 million in 2020 to RMB333.9 million in 2021; and (iii) an increase in share of results of investments in the associates accounted for using the equity accounting method from RMB368.9 million in 2020 to RMB481.3 million in 2021.

As a result of the foregoing, the segment margin of the Group's proprietary business changed from -5.2% in 2020 to -2.2% in 2021.

Selected Consolidated Financial Positions

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

Assets

As at 31 December 2020 and 31 December 2021, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB17,469.5 million and RMB16,170.0 million, respectively, of which the total assets of the Company amounted to RMB11,098.5 million and RMB14,442.0 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 2021, the above-mentioned major assets accounted for 30.2%, 12.8%, 5.5%, 19.6%, 9.8%, 1.2% and 4.3% of the total assets of the Group, respectively.

Loans to Customers

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 all granted to corporate customers during the year ended 31 December 2021.

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 year ended 31 December 2021. The gross amount of such impaired loans increased by 27.2% from RMB4,157.3 million as at 31 December 2020 to RMB5,289.2 million as at 31 December 2021. 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 2020 and 31 December 2021 were RMB2,782.4 million and RMB3,426.1 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,422.6 million and RMB1,986.2 million for these impaired loans as at 31 December 2020 and 31 December 2021, respectively, representing 34.2% and 37.6% 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 42.7% and 76.6% of the Group's gross loans to customers as at 31 December 2020 and 31 December 2021, respectively.

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 accounting method or measured at fair value. The investments in associates decreased by 36.1% from RMB3,242.8 million as at 31 December 2020 to RMB2,072.3 million as at 31 December 2021, primarily related to the decrease investment in associates indirectly held by the Group through consolidated structured entities.

Financial Assets at FVPL

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 41.5% from RMB2,236.5 million as at 31 December 2020 to RMB3,164.5 million as at 31 December 2021, primarily due to the Group's (i) increase of the equity investments in unlisted entities; (ii) increase of the investments in asset management products; (iii) increase of the investments in mutual funds; (iv) increase of the investments in trust schemes; (v) decrease of the investments in listed shares and (vi) decrease of the investment in bonds.

Cash and Bank Balances

As at 31 December 2020 and 31 December 2021, the Group's cash and bank balances amounted to RMB969.5 million and RMB1,586.6 million, respectively, of which RMB698.8 million and RMB1,376.9 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

Trustee's remuneration of the Group 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.

Trustee's remuneration receivable of the Group increased by 20.7% from RMB165.9 million as at 31 December 2020 to RMB200.1 million as at 31 December 2021. 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 2022, 25.6% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Resale Agreements

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

The Group's government bonds purchased under agreements to resell increased by 551.1% from RMB107.1 million as at 31 December 2020 to RMB697.6 million as at 31 December 2021. These changes were due to the flexible adjustment of the business scale of the Group's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Group's government bonds purchased under agreements to resell as at 31 December 2020 and 31 December 2021, respectively.

Contribution to Trust Industry Protection Fund Due from Counterparty Clients

Pursuant to the Administrative Measures, 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 RMB289.4 million and RMB11.6 million as at 31 December 2020 and 31 December 2021, respectively, among which RMB179.5 million and RMB8.9 million were classified as non-current assets, and RMB109.9 million and RMB2.7 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 2021, 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 2020 and 31 December 2021, the Group's total liabilities amounted to RMB7,167.1 million and RMB5,303.8 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 year ended 31 December 2021 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 2021, 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 41.1%, 30.2%, 2.2% and 24.4% of the Group's total liabilities, respectively.

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

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

The Group's total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portions) decreased by 64.4% from RMB6,118.2 million as at 31 December 2020 to RMB2,180.0 million as at 31 December 2021. 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.

Short-term Borrowings

As at 31 December 2021, the Group's short-term borrowings amounted to RMB1,604.2 million were interest-bearing loans from China Trust Protection Fund that fall due and were repaid in February and March 2022.

Other Current Liabilities

The Group's other current liabilities during the year ended 31 December 2021 consisted mainly of proceeds due to the NCSSF and the Trust Industry Protection Fund collected from counterparty clients of the Company's financing trusts, deferred trustee's remuneration, fund due to the unconsolidated structured entries managed by the Company, and value-added tax and surcharges for trusts.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts decreased from RMB196.0 million as at 31 December 2020 to RMB194.0 million as at 31 December 2021.

The Company's deferred trustee's remuneration increased from RMB13.9 million as at 31 December 2020 to RMB30.8 million as at 31 December 2021.

The VAT 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 VAT Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 31 December 2021, the outstanding VAT for trusts and the related surcharges amounted to RMB46.3 million.

Off-balance Sheet Arrangements

As at 31 December 2021, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

RISK MANAGEMENT

Credit Risk Management

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

During the year ended 31 December 2021, 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. During the year ended 31 December 2021, the intelligent risk control system independently designed and developed by the Company was put into use. With index system, rules and models as the engine, the intelligent risk control system established an efficient, unified and reliable risk control data platform, and realised online measurement and independent rating of some trust businesses, effectively improving the Company's investment decision-making ability and risk management level. Meanwhile, 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 disposition measures in a timely manner to minimise the potential loss.

Credit Risk Management on Proprietary Business

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

Market Risk Management

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. It mainly represents the volatility risk arising from price risk, interest rates risk and foreign exchange risk. During the year ended 31 December 2021, the Company managed such risk mainly through the Company's diversified and carefully selected investment portfolio and stringent investment decision-making mechanism.

Liquidity Risk Management

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

For the year ended 31 December 2021, the Company regularly forecasted its cash flow and monitored its short-term and long-term capital needs to ensure that it has sufficient cash reserves and financial assets that are readily convertible to cash. The Company holds sufficient unrestricted cash at bank and in hand to satisfy the capital need for the daily operation of the Company.

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 as well as 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 to dividend distribution and raising new capital.

The Company monitors its net capital and risk-based capital regularly based on regulations issued by the CBIRC. Effective from 20 August 2010, the Company started to implement the Measures for the Net Capital Administration. 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 2021, the Company's net capital was approximately RMB7.427 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.067 billion; the ratio of net capital to total risk-based capital was 242.18%, which is not lower than 100%; and the ratio of net capital to net asset was 69.08%, which is not lower than 40%.

FOR THE SIX MONTHS ENDED 30 JUNE 2022

BUSINESS OVERVIEW

In the first half of 2022, the Group achieved fee and commission income with an amount of 519.5 million, representing a year-on-year increase of 6.4%; operating income with an amount of RMB631.3 million, representing a year-on-year decrease of 37.5%. Net loss attributable to shareholders of the Company was RMB423.3 million, and the net profit attributable to shareholders of the Company was RMB493.6 million in the corresponding period of 2021, mainly due to the fact that (i) in the first half of 2022, the Group transferred all debts under the Ruiyuan No.76 Trust Scheme (the "**Ruiyuan No.76 Debt**") through public tender procedures. As at the Latest Practicable Date, the debt transfer has not been completed. The Group recorded the expected loss arising from the transfer of the Ruiyuan No.76 Debt (being the difference between the carrying amount and the transfer price of the Ruiyuan No.76 Debt) as impairment losses on financial assets. Meanwhile, affected by multiple factors such as the impact of the pandemic, the macroeconomic downturn and strict regulatory policies, in order to mitigate risks, the Group increased the provision for impairment of assets based on the principle of prudence; and (ii) the net interest income from loans to customers of the Group decreased.

In the first half of 2022, the Group conducted the transfer of its 16.675% equity interest in Fullgoal Fund Management Co., Ltd. (the "**Equity Interest in Fullgoal Fund**") through the public tender procedures. As at the Latest Practicable Date, the equity transfer has not been completed. The expected gains on the equity transfer to be materialised will be recognised upon the approval of the equity transfer by the competent authorities.

Trust Business

In the first half of 2022, the scale of AUM recorded an increase as compare to the beginning of the year and income from trust business recorded an increase on a year-on-year basis, and the income from actively managed trust in proportion of the fee and commission income of the total income from trust business decreased. The AUM of the Company increased from RMB156,450 million as at 31 December 2021 to RMB167,406 million as at 30 June 2022, and the total number of trusts were 1,318 and 1,411, respectively, as at the respective dates. In the first half of 2022, the Company achieved income of trust business amounted to RMB520 million, indicating a year-on-year increase of 6.5%. During the six months ended 30 June 2022, revenue from the actively managed trust amounted to RMB281 million, accounting for 54.1% of the fee and commission income of the total income from trust business and indicating a year-on-year decrease of 28.3 percentage points.

Real Estate Trusts

As at 30 June 2022, the Company had 24 existing equity investment projects (including "equity + debt" projects), of which the total scale of pure equity investment was RMB955 million. The Company will actively respond to the national macro policies, actively comply with the regulatory guidance, scientifically study and judge the market situation, vigorously support the construction of long-term rental housing and affordable housing, and continue to serve the reasonable inelastic and improving housing needs of residents.

Capital Market Trusts

As at 30 June 2022, the size of the Company's existing capital market business exceeded RMB56.0 billion. With the establishment of the Science and Technology Innovation Board, the Beijing Stock Exchange and the implementation of capital market deepening reform measures such as the comprehensive implementation of the stock issuance and registration system, the construction of China's multi-level capital market has been improved day by day, which provides a broad development platform and market space for trust companies to vigorously expand this kind of business.

Family Trusts

As at 30 June 2022, the Company had established 1,329 family trusts, with an existing scale of RMB23.389 billion, which has always been in the forefront of the industry in recent years. In the first half of 2022, the Company's family trust was awarded the "Gold Honour Award" and "2021 Chinese Family Office top 30" at the annual summit of China's asset management and wealth management industry. China's middle-class group is expanding gradually, and the number of high-net-worth clients is growing steadily. With the gradual improvement of supporting legal system and tax system, as the only financial instrument endowed by the laws and regulations with many core functions such as asset isolation, protection, inheritance and wealth management, the functionality and importance of family trust are being known and recognised by more high-net-worth individuals, and the development prospect and market space of family trust are broad.

Industrial and Commercial Enterprises Trusts

As at 30 June 2022, the existing industrial and commercial enterprises trust scale of the Company was RMB18.857 billion, and the counterparties were mainly central enterprises and state- owned enterprises with strong strength and high credit rating. Under the background of global outbreak, unsmooth circulation of industrial chain and supply chain, rising commodity prices and new downward pressure on the economy, the Company will actively respond to the national call, flexibly use trust instruments, and increase its support to the real economy, especially small and medium-sized and micro enterprises, scientific and technological innovation, green development, "specialised and innovative" enterprises, industries with regional characteristics and advantages, and ecological protection in the Yellow River Basin, so as to help enhance the core competitiveness of manufacturing industry and regional economic development.

Infrastructure Trusts

As at 30 June 2022, the Company's existing infrastructure trust amounted to RMB11.226 billion, and its counterparties were mainly state-owned enterprises.

Consumer Finance Trusts

As at 30 June 2022, the Company had established consumer finance trusts totalling RMB7.452 billion, with an existing scale of RMB4.141 billion, providing consumption financial services to 2.6630 million natural persons in aggregate and established long-term and stable cooperative relations with many well-known and stable platforms with high credit rating in the industry. With the introduction of normative documents in the consumer finance industry, the business rules and business model of consumer finance have become clearer, which has laid a solid institutional foundation and provided broad development space for trust companies to standardise and steadily carry out consumer finance business.

Asset Securitisation Trusts

As at 30 June 2022, the Company, as the initiator and trustee of asset-backed securities, had set up four asset-backed securities projects with a cumulative scale of RMB8.702 billion, involving ABN, CMBS, CMBN, etc. During the business process, the Company has established good cooperative relationship with financial institutions including large securities companies, large commercial banks and many high-quality state-owned enterprises, and accumulated experience in the screening and construction of underlying assets, asset transfer, information disclosure and trust affairs management. In the future, the Company will continuously improve its capabilities in asset pool construction, product structure design and pricing, and actively extend to underwriting, investment and other fields.

Charitable Trusts

In recent years, the Company has actively carried out charitable trust business, and has initially established a business model of cooperation with family trusts. As at 30 June 2022, the Company had established a total of 12 standardised charitable trusts with an existing scale of approximately RMB76.2941 million. The Company has utilised a total of RMB10.2082 million of trust funds in accordance with trustors' intentions for the benefit of 5,361 direct beneficiaries. The charitable projects spread all over Shandong, Fujian, Jiangsu, Yunnan and other provinces and cities, which strongly promoted the development of public welfare undertakings such as providing financial aid to students, offering financial help to the poor and alleviating poverty. The development of poverty alleviation and other public welfare undertakings has effectively met the needs of customers, social organisations and government departments in public welfare and charity and social service. It was awarded the "China Financial Brand Summit and Financial Corporate Social Responsibility Conference- Top Ten Social Responsibility Projects of the Year" in 2021, the 14th "Integrity Trust" Best Charity Trust Product Award and the 2022 "Gold Award – Outstanding Charity Trust Product Award".

In 2022, the Company set up a new "Datong No.10 Charity Trust" featuring active management, self-management, online fund-raising and extensive participation, and driving more forces to participate in charity.

Proprietary Business

In the first half of 2022, in order to reasonably optimise the allocation of its own funds and improve the operational standard of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and made reliable investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, and provided great support for standardised products and the transformation and innovation of the "equity + debt" trust business so as to assist the transformation and development of the Company's business. Secondly, the Company focused on the optimisation of financial indicators, commenced the transfer of Equity Interest in Fullgoal Fund so as to acquire liquidity and enhance risk resistance, further focused on the main business of trust and served the transformation and development of the Company. Thirdly, the Company further optimised the asset structure, actively dealt with inefficient assets, and improved the quality of proprietary assets. Fourthly, with safety and liquidity being assured, diversified investment and efficient use of liquidity capital for short-term operations such as government bonds purchased under agreements to resell, investment in monetary fund and cash management trust schemes were actively carried out to improve capital utilisation efficiency. The Company recorded segment income of RMB302.1 million from its proprietary business in the first half of 2022, representing a year-on-year decrease of 60.3%, mainly due to the decrease in interest income from RMB441.9 million in the first half of 2021 to RMB36.6 million in the first half of 2022.

Allocation of Proprietary Assets

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 purchased under agreements to resell in order to maintain the Company's liquidity and satisfy capital requirement for the expansion of its trust business.

Monetary Assets

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 3.7% and 1.4% for the six months ended 30 June 2021 and for the six months ended 30 June 2022, respectively.

Securities Investments

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the six months ended 30 June 2022, the average balance of the Company's investments in equity products increased by 42.0% from RMB826.7 million in 2021 to RMB1,173.8 million in the first half of 2022; the average balance of investments in trust schemes decreased by 3.6% from RMB4,377.3 million in 2021 to RMB4,220.2 million in the first half of 2022; the average balance of the financial investments – amortised cost increased by 226.5% from RMB443.8 million in 2021 to RMB1,449.0 million in the first half of 2022; and the average balance of investments in asset management products increased by 42.4% from RMB148.7 million in 2021 to RMB211.8 million in the first half of 2022.

Long-Term Equity Investments

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 12.6% and 21.3% for the six months ended 30 June 2021 and the six months ended 30 June 2022, respectively. The increase in average return on long-term equity investments in the first half of 2022 as compared to that of the first half of 2021 was primarily due to the increase in dividend income from the associates of the Company in the first half of 2022.

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 2021 and 30 June 2022, the outstanding balance of the Company's proprietary loans were RMB1,687.5 million and RMB1,000.0 million, respectively. During the six months ended 30 June 2022, the Company entered into a transfer agreement for the proprietary loan (i.e. Ruiyuan No.76 Debt) and carried it forward to assets classified as held for sale during the first half of 2022.

Trust Industry Protection Fund

According to the Administrative Measures, trust companies are required to subscribe for a certain amount of the protection fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 4.2% from RMB104.5 million as at 31 December 2021 to RMB108.9 million as at 30 June 2022.

FINANCIAL OVERVIEW

Unaudited Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income Analysis

In the first half of 2022, the Company recorded a net loss attributable to shareholders of the Company of RMB423.3 million, and a net profit of RMB493.6 million in the corresponding period of last year.

Total Operating Income

Fee and Commission Income

The Group's fee and commission income in the first half of 2022 was RMB519.5 million, representing an increase of 6.4% as compared to RMB488.4 million in the first half of 2021.

Interest Income

The Group's interest income in the first half of 2022 was RMB37.6 million, representing a decrease of 91.5% as compared to the RMB442.4 million in the first half of 2021. Such decrease was primarily due to a decrease of 94.2% in interest income of loans granted by consolidated structured entities recorded by the Group from RMB427.6 million in the first half of 2021 to RMB24.9 million in the first half of 2022.

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 recorded a loss of RMB135.4 million in the first half of 2021, and a gain of RMB35.9 million in the first half of 2022, primarily due to the fact that the Group disposed of stocks, mutual funds and other financial products in the first half of 2021, and transferred the income from changes in fair value recognised in previous years to invest income.

Investment Income

The Group's investment income in the first half of 2022 was RMB36.7 million, representing a decrease of RMB134.0 million as compared to RMB170.7 million in the first half of 2021. Such decrease was due to the decrease in the trading volume of listed shares, mutual funds and other financial products held by the Group in the first half of 2022.

Net Gains on Disposal of Investments in Associates

In the first half of 2021, through disposal of associates held by the consolidated structured entities, the Group realised a net gain of RMB41.2 million. No associate held by the structured entities was disposed of in the first half of 2022.

Total Operating Expenses

Interest Expenses

The Group's interest expenses mainly represented (i) interest paid to China Trust Protection Fund; (ii) expected returns attributable to third-party beneficiaries of the Group's consolidated financing trust schemes (after offsetting the impairment losses attributable to such third-party beneficiaries).

The Group's interest expenses in the first half of 2022 were RMB107.5 million, representing a decrease of 48.3% as compared to RMB207.9 million in the first half of 2021, primarily due to a decrease 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), partially offset by the increase in interest expenses on borrowings from China Trust Protection Fund.

Staff Costs (including Directors and Supervisors' Emoluments)

The Company's staff costs in the first half of 2022 were RMB93.6 million, representing an increase of 25.4% as compared to RMB74.7 million in the first half of 2021, primarily due to the increase in salaries and bonuses as a result of the introduction of professionals and talents under the market reform of the Company.

Impairment Losses on Financial Assets, Net of Reversal

Impairment losses on financial assets, net of reversal of the Group increased by 261.6% from RMB335.7 million in the first half of 2021 to RMB1,214.1 million in the first half of 2022, which was primarily due to the fact that in the first half of 2022, the Company transferred the Ruiyuan No.76 Debt through public tender procedures and recorded the expected loss arising from the transfer of the Ruiyuan No.76 Debt (being the difference between the carrying amount and the transfer price of the Ruiyuan No.76 Debt) as impairment losses on financial assets. Meanwhile, affected by multiple factors such as the impact of the COVID-19 pandemic, the macroeconomic downturn and strict regulatory policies, in order to mitigate risks, the Group increased the provision for impairment of assets based on the principle of prudence.

Share of Results of Investments in the Associates Accounted for Using the Equity Accounting Method

The Group's share of results of investments in the associates accounted for using the equity accounting method decreased by 20.2% from RMB239.6 million in the first half of 2021 to RMB191.3 million in the first half of 2022, primarily due to the decrease in the net profit of certain investees.

(Loss)/Profit before Income Tax and Operating Margin

The Group's profit before income tax changed from RMB557.9 million in the first half of 2021 to a loss of RMB611.5 million in the first half of 2022.

Income Tax Credit/(Expense)

The Company's income tax expense changed from RMB64.4 million in the first half of 2021 to an income tax credit of RMB188.3 million in the first half of 2022, primarily due to the loss before income tax recorded in the first half of 2022 of the Group.

Net (Loss)/Profit Attributable to Shareholders of the Company and Net Profit Margin

The net profit attributable to the shareholders of the Company changed from RMB493.6 million in the first half of 2021 to a net loss of RMB423.3 million in the first half of 2022.

Segment Results of Operations

Trust Business

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

The segment profit before income tax for the Group's trust business increased by 0.7% from RMB377.2 million in the first half of 2021 to RMB380.0 million in the first half of 2022, primarily due to an increase of 6.5% in the segment income from the trust business from RMB488.9 million in the first half of 2021 to RMB520.5 million in the first half of 2022, which was partially offset by an increase of 25.7% in segment operating expenses from the trust business from RMB111.7 million in the first half of 2021 to RMB140.4 million in the first half of 2022.

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 RMB488.4 million in the first half of 2021 to RMB519.5 million in the first half of 2022.

The increase in the segment operating expenses from the trust business was mainly due to (i) an increase in staff cost from RMB72.7 million in the first half of 2021 to RMB90.9 million in the first half of 2022; (ii) an increase in administrative expenses related to the Group's trust business from RMB29.6 million in the first half of 2021 to RMB42.1 million in the first half of 2022.

As a result of the foregoing, the segment margin of the trust business decreased from 77.2% in the first half of 2021 to 73.0% in the first half of 2022.

Proprietary Business

The segment income from the Group's proprietary business mainly consists of the interest income from loans to customers, interest income from financial investment – amortised cost and financial assets purchased under resale agreements, interest income from contribution to Trust Industry Protection Fund, net changes in fair value on financial assets at FVPL and investment in associates measured at fair value, investment income, net gains on disposal of investments in associates and share of results of investments in the associates accounted for using the equity accounting 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, net of reversal.

The segment profit before income tax for the Group's proprietary business changed from RMB180.7 million in the first half of 2021 to RMB991.6 million of loss in the first half of 2022, primarily due to a decrease of 60.3% in the segment income from the proprietary business from RMB761.0 million in the first half of 2021 to RMB302.1 million in the first half of 2022, and an increase of 122.9% in the segment operating expenses from the proprietary business from RMB580.3 million in the first half of 2021 to RMB1,293.7 million in the first half of 2022.

The decrease in segment income from the proprietary business was mainly due to a decrease in the interest income from RMB441.9 million in the first half of 2021 to RMB36.6 million in the first half of 2022.

The increase in the segment operating expenses from the proprietary business was mainly due to an increase in the impairment losses on financial assets, net of reversal from RMB335.7 million in the first half of 2021 to RMB1,214.1 million in the first half of 2022, partially offset by a decrease in interest expenses from RMB207.9 million in the first half of 2021 to

RMB107.5 million in the first half of 2022 and a decrease in positive change in net assets attributable to other beneficiaries of consolidated structured entities from RMB26.7 million in the first half of 2021 to a negative change in net assets of RMB46.0 million in the first half of 2022.

Selected Interim Condensed Consolidated Financial Positions

The Group's interim condensed 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 interim condensed consolidated statements of financial positions.

Assets

As at 31 December 2021 and 30 June 2022, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB16,170.0 million and RMB17,116.5 million, respectively, of which the total assets of the Company amounted to RMB14,442.0 million and RMB16,118.1 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) financial assets at FVPL, (iii) assets classified as held for sale, (iv) financial investments – amortised cost, (v) financial assets purchased under resale agreements, (vi) investments in associates, and (vii) trustee's remuneration receivable. As at 30 June 2022, the above-mentioned major assets accounted for 13.5%, 21.8%, 12.5%, 10.7%, 7.8%, 5.3% and 1.1% of the total assets of the Group, respectively.

Loans to Customers

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 all granted to corporate customers during the six months ended 30 June 2022.

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 six months ended 30 June 2022. The gross amount of such impaired loans decreased by 28.6% from RMB5,289.2 million as at 31 December 2021 to RMB3,774.9 million as at 30 June 2022. 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 2021 and 30 June 2022 were RMB3,426.1 million and RMB2,003.9 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,986.2 million and RMB2,032.2 million for these impaired loans as at 31 December 2021 and 30 June 2022, respectively, representing 37.6% and 53.8% of the gross amount of those loans, respectively. The Group has provided impairment allowances as such impairment allowances were provided in accordance with the provisions under IFRS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 76.6% and 86.4% of the Group's gross loans to customers as at 31 December 2021 and 30 June 2022, respectively.

The Company is allowed to grant loans to customers using its proprietary assets, which are referred to as the Company's proprietary loans. During the six months ended 30 June 2022, the Company entered into a transfer agreement for the proprietary loans (i.e. Ruiyuan No.76 Debt) and carried it forward to the assets classified as held for sale.

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. Investment in the associates decreased by 55.8% from RMB2,072.3 million as at 31 December 2021 to RMB914.9 million as at 30 June 2022. In the first half of 2022, the Company transferred the Equity Interest in Fullgoal Fund through public tender procedures. As at the Latest Practicable Date, the equity transfer has not been completed. In accordance with the relevant requirements of IFRS, the Company carried it forward to the assets classified as held for sale. The expected gains on the equity transfer to be materialised will be recognised upon the approval of the equity transfer by the competent authorities.

Financial Assets at FVPL

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 17.9% from RMB3,164.5 million on 31 December 2021 to RMB3,729.4 million on 30 June 2022, primarily due to the Group's (i) increase of the investments in mutual funds; (ii) increase of the investments in trust schemes; and (iii) decrease of the investments in bonds.

Trustee's Remuneration Receivable

Trustee's remuneration receivable of the Group 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.

Trustee's remuneration receivable of the Group decreased by 4.6% from RMB200.1 million on 31 December 2021 to RMB190.8 million on 30 June 2022. 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 31 July 2022, 15.6% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Resale Agreements

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

The Group's government bonds purchased under agreements to resell increased from RMB697.6 million on 31 December 2021 to RMB1,334.6 million on 30 June 2022. These changes were due to the flexible adjustment of the business scale of the Company's based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Company's government bonds purchased under agreements to resell as at 31 December 2021 and 30 June 2022, respectively.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Administrative Measures, 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 RMB11.6 million and RMB10.2 million as at 31 December 2021 and 30 June 2022, respectively, among which RMB8.9 million and RMB10.2 million were classified as non-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. As at 30 June 2022, 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.

Assets Classified as Held for Sale

In the first half of 2022, the Company transferred the Equity Interest in Fullgoal Fund and Ruiyuan No.76 Debt through public tender procedures. As at the Latest Practicable Date, neither the equity transfer nor the debt transfer has been completed. In accordance with the relevant requirements of IFRS, the Company recorded them as assets classified as held for sale, with a carrying amount of RMB2,131.7 million.

Liabilities

As at 31 December 2021 and 30 June 2022, the Group's total liabilities amounted to RMB5,303.8 million and RMB6,677.2 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 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 30 June 2022, 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 12.0%, 30.0%, 2.1% and 53.8% 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 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) decreased by 63.2% from RMB2,180.0 million on 31 December 2021 to RMB803.3 million on 30 June 2022. 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.

Short-term Borrowings

As at 30 June 2022, the Group's short-term borrowings amounting to RMB2,005.0 million were interest-bearing loans from China Trust Protection Fund that will fall due in January, March and April 2023, respectively.

Other Current Liabilities

The Group's other current liabilities during the six months ended 30 June 2022 consisted mainly of proceeds due to the NCSSF, and Trust Industry Protection Fund collected from counterparty clients of the Company's financing trusts, value-added tax and surcharges for trusts, deferred trustee's remuneration, other tax payable and disposal amount of assets classified as held for sale received in advance.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB194.0 million as at 31 December 2021 to RMB469.1 million as at 30 June 2022.

The Company's deferred trustee's remuneration increased from RMB30.8 million on 31 December 2021 to RMB41.5 million on 30 June 2022.

The VAT 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 VAT Notice. The VAT shall be submitted to the competent taxation authority through a special account of the Company. As at 30 June 2022, the outstanding VAT for trusts and the related surcharges amounted to RMB57.2 million.

As at 30 June 2022, the Group has received RMB2,499.3 million for the disposal of assets for sale in advance.

Off-balance Sheet Arrangements

As at 30 June 2022, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

RISK MANAGEMENT

Credit Risk Management

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

During the six months ended 30 June 2022, 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. During the six months ended 30 June 2022, the intelligent risk control system independently designed and developed by the Company was put into use. With index system, rules and models as the engine, the intelligent risk control system established an efficient, unified and reliable risk control data platform, and realised online measurement and independent rating of some trust businesses, effectively improving the Company's investment decision-making ability and risk management level. Meanwhile, 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 disposition measures in a timely manner to minimise the potential loss.

Credit Risk Management on Proprietary Business

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

Market Risk Management

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. It mainly represents the volatility risk arising from price risk, interest rates risk and foreign exchange risk. During the six months ended 30 June 2022, the Company managed such risk mainly through the Company's diversified and carefully selected investment portfolio and stringent investment decision-making mechanism.

Liquidity Risk Management

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

For the six months ended 30 June 2022, the Company regularly forecasted its cash flow and monitored its short-term and long-term capital needs to ensure that it has sufficient cash reserves and financial assets that are readily convertible to cash. The Company holds sufficient unrestricted cash at bank and in hand to satisfy the capital need for the daily operation of the Company.

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 Measures for the Net Capital Administration. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBIRC on a quarterly basis.

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

As at 30 June 2022, the Company's net capital was approximately RMB8.027 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.120 billion; the ratio of net capital to total risk-based capital was 257.25%, which is not lower than 100%; and the ratio of net capital to net asset was 77.76%, which is not lower than 40%.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2019, 2020, 2021 and 30 June 2022, the Company had a total of 229, 235, 350 and 385 employees, respectively. The Company adopted a market-driven and competency-based assessment and appraisal incentive system, under which remuneration is linked to employee performance. Remuneration packages are determined with reference to the Company's operating results and risk control, while the employees' remuneration is closely related to the assessment and achievement of their performance indicators, risk control indicators and social responsibility indicators. A comprehensive employee competency-based assessment system provides the basis for human resources-related decisions such as remuneration adjustments, bonus allocation, promotion, talent development and incentive scheme for employees. The Company has complied with the relevant regulations on remuneration management as required by regulatory authorities and enforced the relevant regulations such as the salary deferral system and the recusal system. The Company insists on establishing a "learning organisation" that provides its staff with training programmes at different levels throughout the year to enhance their overall quality and work skills. Internal training is carried out in the form of internal case sharing by external professional instructors, in which the staff is encouraged to "go global". With a combination of compulsory and optional training courses and an assessment by training credits, the Company continues to improve its training system and provide efficient, professional and comprehensive training by differentiating the needs of different positions and levels.

OUTLOOK

Please refer to "Financial and Business Prospects" in "Appendix I – Financial Information of the Group" to this circular.

The Proposed Amendments to the Articles of Association are as follows:

Article 1. In order to safeguard the legitimate interests of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Company"), its shareholders, creditors and trustors, regulate the organisation and conduct of the Company, and promote the establishment of a sound corporate governance structure and internal control system of the Company, these Articles of Association are hereby formulated in accordance with the Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as the "Securities Law"), the Trust Law of the People's Republic of China (hereinafter referred to as the "Trust Law"), the Administrative Measures of Trust Companies, the Guidelines for Governance of Trust Companies, ~~the Guidelines for Corporate Governance of Commercial Banks,~~ the Standards for Corporate Governance of Banking and Insurance Institutions, the Interim Measures for the Equity Management of Trust Companies, the Special Regulations of the State Council on the Overseas Share Offering and Listing of Joint Stock Limited Companies (hereinafter referred to as the "Special Regulations"), the Mandatory Provisions for Articles of Association of Companies Listing Overseas, the Opinion Letter on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Hong Kong Listing Rules") and other laws and regulations.

Article 2. The Company is a joint stock limited company and a non-bank financial institution established in accordance with the Company Law, the Special Regulations and other relevant laws and administrative regulations of the People's Republic of China (hereinafter referred to as the "PRC").

The Company was established by way of promotion on 10 July 2015 and was converted from Shandong International Trust Corporation into a joint stock limited company as approved by the Reply of the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government on Relevant Issues Concerning the Conversion of Shandong International Trust Corporation into a Joint Stock Limited Company (Lu Guo Zi Shou Yi Zi [2015] No. 4), and obtained a new business license upon change of registration with Shandong Administration for Industry & Commerce on 30 July 2015 according to the Reply of the Shandong Office of China Banking ~~and Insurance~~ Regulatory Commission on the Change of Name of Shandong International Trust Corporation (Lu Yin Jian Zhun [2015] No. 191) issued by the Shandong Office of China Banking ~~and Insurance~~ Regulatory Commission (currently, the Shandong Office of China Banking and Insurance Regulatory Commission, hereinafter referred to as the "Shandong Office of CBIRC") in relation to the change of name of the Company involved in the restructuring of the Company. The unified social credit code of the Company is: 9137000016304514XM.

Article 4. Address of the Company: ~~No. 166 Jiefang Road, Jinan, Shandong Province~~ Partial area of 1/F, 2/F and 13/F, 32-35/F and 40/F, Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province

Postal Code: 250~~013~~101

Telephone No.: 0531-86566555

Fax No.: 0531-86968708

Article 12. The scope of business of the Company shall be limited to activities approved by the competent authorities regulating the industry the Company operates in and the industry and commerce administration authorities.

The Company may, with the approval by the China Banking and Insurance Regulatory Commission (hereinafter referred to as the "CBIRC"), engage in the following businesses in Renminbi or foreign currencies:

(i) fund trusts;

(ii) trusts of movable property;

(iii) real estate trusts;

(iv) trusts of marketable securities;

(v) trusts of other properties or property rights;

(vi) engaging in fund investment business as the promoter of an investment fund or a fund management company;

(vii) engaging in business including enterprise asset restructuring, mergers and acquisitions, project financing, corporate finance, financial consulting and others;

(viii) entrusted securities underwriting business as approved by relevant departments of the State Council;

(ix) mediation, advising, credit investigation business and others;

(x) bailment and safe deposit locker facility business;

(xi) utilisation of proprietary assets by way of deposits at banks and other financial institutions, lending to banks and other financial institutions, loans, leasing and investments;

(xii) provision of guarantees for other parties with proprietary assets;

(xiii) engaging in interbank lending business;

(xiv) other business stipulated by laws and regulations or approved by the China Banking and Insurance Regulatory Commission.

Article 51. Any transfer of shares by a shareholder of the Company shall be subject to the approval from the CBIRC or its local office, except those who individually or jointly held with related parties the outstanding shares of the Company representing less than 5% of the total number of shares of the Company.

Where the shares held by a shareholder of the Company exceeds 5% of the total number of shares of the Company, such shareholder shall report to the Company in writing on the date of occurrence of such fact.

If, in the absence of the prior approval of the banking regulatory authorities, the number of shares held by a shareholder is equal to or in excess of 5% of the total number of the issued shares of the Company (hereinafter referred to as the “excess shares”), prior to the approval of the banking regulatory authorities, such shareholder holding the excess shares shall be subject to the necessary restrictions provided in the paragraph 12 of the Article 56 of the Articles of Association when exercising the shareholders’ right in respect of the excess shares as stipulated in the Article 53 of the Articles of Association~~, including but not limited to:~~.

~~(i) no voting rights shall be attached to the excess shares when a vote is taken at the general meeting of the Company (including vote cast by class shareholders);~~

~~(ii) the right to nominate candidates for the post of directors and supervisors as stipulated in the Articles of Association shall not be attached to the excess shares.~~

Notwithstanding the foregoing provisions, shareholders holding the excess shares shall not be subject to any restriction when exercising other rights as stipulated in the Article 53 of the Articles of Association. If a shareholder holding the excess shares fails to obtain the approval from the banking regulatory authorities, such shareholder must transfer such excess shares within the period prescribed by the banking regulatory authorities.

Article 56. Holders of ordinary shares of the Company shall assume the following obligations:

(i) to abide by laws, administrative regulations, regulatory requirements and the Articles of Association;

(ii) to pay subscription monies according to the number of shares subscribed by them and the methods of subscription;

(iii) not to withdraw their contributed share capital or demand the Company to repurchase the shares held by them unless in such circumstances as stipulated by the laws and regulations;

(iv) to use their proprietary funds from legitimate sources to invest in the Company, and not to use entrusted funds, debt funds or other non-proprietary funds to invest in the Company, unless otherwise provided by the laws, regulations or regulatory system;

(v) comply with the regulatory provisions in respect of the shareholding ratio and the number of institutions holding the shares and not to entrust others or accept entrustment from others to hold the shares in the Company;

(vi) truthfully inform the Company of their financial information, shareholding structure, sources of funds to invest, controlling shareholders, de facto controllers, related parties, parties acting in concert, ultimate beneficiaries and investments in other financial institutions, etc. in accordance with the laws, regulations and regulatory provisions;

(vii) if there is a change in the controlling shareholders, de facto controllers, related parties, parties acting in concert or ultimate beneficiaries of a shareholder, the relevant shareholder shall inform the Company of the change in writing in a timely manner in accordance with the laws, regulations and regulatory provisions;

(viii) if a shareholder undergoes a merger or division, is subject to an order for business suspension and measures involving designated custody, receivership, revocation, or enters into dissolution, liquidation or bankruptcy proceedings, or if there is a change in its legal representative, company name, business premises, business scope or other material matters, such shareholder shall inform the Company in writing of the relevant circumstances in a timely manner in accordance with the laws, regulations and regulatory provisions;

(ix) if the Company's shares held by a shareholder are involved in litigation, arbitration, legal compulsory measures taken by judicial authorities, etc., or are pledged or released from a pledge, such shareholder shall inform the Company of the relevant information in writing in a timely manner in accordance with the laws, regulations and regulatory provisions;

(x) shareholders who transfer or pledge their shares in the Company, or enter into related party transactions with the Company, shall comply with the laws, regulations and regulatory provisions, and shall not prejudice the interests of other shareholders and the Company;

(~~iv~~xi) shareholders, their controlling shareholders and de facto controllers shall not ~~to~~ abuse their shareholders' rights or use their affiliation to impair the legitimate interests of the Company ~~or~~, other shareholders and stakeholders~~,~~; not interfere with the decision-making and management rights of the board of directors and senior management in accordance with the Articles of Association; not bypass the board of directors and senior management to directly interfere with the operation and management of the Company; and not ~~to~~ abuse the independent legal person status of the Company and the limited liability of shareholders to impair the interests of any creditor of the Company; shareholders of the Company shall be jointly and severally liable for the debts of the Company if such shareholders abuse the independent legal person status of the Company and the limited liability of shareholders and evade the repayment of debts, resulting in material damages to the interests of any creditor of the Company.

If a shareholder of the Company abuses its shareholder's rights and thereby causes losses to the Company or other shareholders, such shareholder shall be liable for indemnity in accordance with the law.

~~(v)~~ ~~If a shareholder of the Company abuses the independent legal person status of the Company and the limited liability of shareholders for the purposes of avoiding debts, resulting in materially impairing the interests of the creditors of the Company, such shareholder shall be jointly and severally liable for the outstanding debts of the Company.~~

(~~vi~~xii) Any shareholder who should obtain approval from the regulatory authority but did not do so, or who fails to report to the regulatory authority, shall be forbidden to exercise, inter alia, the right to request for convening a general meeting, voting right, nomination right, motion right and disposal right.

(~~vii~~xiii) For any shareholder who makes false representation, abuses shareholder's rights or commits other acts which are detrimental to the interests of the Company, CBIRC or its local offices may, inter alia, restrict or prohibit the Company from entering into related party transaction with such shareholder, limit the ratio of equity interest held by such shareholder in the Company, and may, inter alia, restrict his right to request for convening a general meeting, his voting right, nomination right, motion right and disposal right.

(xiv) in the event of a risk event or material non-compliance by the Company, shareholders shall cooperate with the regulatory authorities in investigation and risk disposal;

(~~viii~~xv) to assume such other obligations as required by the laws, regulations, normative documents, regulatory provisions and the Articles of Association.

Shareholders shall not be liable to make any further contributions to the share capital other than the conditions agreed by the subscribers at the time of share subscription.

The Company shall establish a corresponding loss absorption and risk prevention mechanism in case of major risks by formulating recommendations on the recovery plan and the disposal plan.

In the event that the Company encounters difficulties in its operation and requests for support from substantial shareholders, the substantial shareholders shall be obligated to provide the Company with necessary liquidity support. ~~The substantial shareholders shall provide capital to the Company when necessary.~~ In the event of insufficient capital or other circumstances affecting the stable operation of the trust company, the substantial shareholders shall perform the undertakings made at the time of subscription and provide capital to the trust company by means of capital increase. Any substantial shareholder who fails to fulfil his/her commitments or is unable to fulfil his/her commitments due to shareholder qualification, he/she shall agree with other shareholders or qualified investors to adopt a reasonable plan to increase capital. The substantial shareholders shall also comply with other relevant requirements and regulations of the banking regulatory authorities regarding the obligations of substantial shareholders.

Article 58. ~~Substantial~~ The shareholder whose qualifications are verified by the CBIRC or its local office shall notify the Company in ~~a timely manner~~ writing within fifteen days upon the occurrence of any of the following events:

(i) that the shares of the Company he/she/it holds is under preservative measures or other enforcement measures;

(ii) to pledge the trust company's equity or establish trust and other financial products with equity and his/her/its rights to receive benefit (income) in violation of the commitments;

(iii) to pledge the equity of the shareholder's company by his/her/its controlling shareholders and de facto controllers or establish trust and other financial products with the equity of the shareholder's company and his/her/its rights to receive benefit (income);

(iv) that there are difficulties to complete the relevant procedures for equity changes within the legal time limit after obtaining the administrative permits from the banking regulatory and administrative authorities under the State Council or their local offices to change the equity or adjust the shareholding structure;

~~(ii) to transfer the shares of the Company he/she/it holds;~~

(v~~iii~~) to changes his/her/its name;

(vi~~iv~~) to engage in any merger or division;

~~(v) dissolution, bankruptcy, close of business or being taken over;~~

(vii~~vi~~) any other circumstances that may affect the qualifications and conditions of shareholders or lead to changes of the shares of the Company he/she/it holds.

Article 59. Where the substantial shareholders of the Company, their controlling shareholders and de facto controllers are prohibited from being the substantial shareholders of the trust company, such substantial shareholders shall notify the Company in writing within 15 days from the date of occurrence of the relevant circumstances. The details are as follows:

(i) having a large number of affiliates and a complex or insufficiently transparent equity ownership structure, and frequently engaging in unusual related party transactions;

(ii) being listed as a target of joint punishment for dishonesty by relevant authorities;

(iii) any record of inappropriate investment in the open market;

(iv) frequently changing their equities or de facto controllers;

(v) committing any act of seriously evading or cancelling the due debts;

(vi) providing false materials or making misstatements, or having invested in the trust industry and providing false materials or making misstatements;

(vii) assuming major responsibility for business failure or major violation of laws and regulations of the trust company invested before, or assuming major responsibility for business failure or major violation of laws and regulations of other financial institutions invested before within five years;

(viii) failing to actually carry out business for a long period of time, suspending their business or undergoing bankruptcy liquidation, or having guarantee, litigation, arbitration or other significant matters that may seriously affect their sustained operation;

(ix) rejecting or obstructing financial management departments from implementing regulation in accordance with the laws;

(x) having been investigated and punished by any financial management department or relevant government department for violation of laws and regulations which resulted in adverse impact;

(xi) other circumstances that may have a material adverse impact on the performance of shareholders' responsibilities or on the Company.

Where the controlling shareholders or de facto controllers of the Company's substantial shareholders change, the substantial shareholders shall provide the Company with relevant materials accurately and completely within 15 days after such change, including the background of the change, the changed controlling shareholders, de facto controllers, related parties, parties acting in concert, ultimate beneficiaries and other information, as well as the explanation on whether the controlling shareholders and de facto controllers have any of the circumstances specified in the preceding paragraphs.

The substantial shareholders of the Company shall report their capital replenishment capacity to the banking regulatory and administrative authorities under the State Council or their local offices through the Company on an annual basis.

~~**Article 61.** Shareholders whose qualification is verified by the CBIRC or its local office shall comply with relevant restrictive requirements of the CBIRC in relation to pledge of shares.~~

Article 62. Shareholders shall not pledge their holding of equity interests of the Company or establish trust and other financial products with the equity and their rights to receive benefits (income), except under special circumstances such as risk disposal or takeover measures taken by the banking regulatory and administrative authorities under the State Council or their local offices. Investors and their related parties or parties acting in concert who, individually or jointly, hold the listed and circulating shares of the Company and whose total shareholding does not reach 5% of the total shares of the Company shall not be subject to the provisions of the preceding paragraph of this Article.

Article ~~65~~66. The general meeting shall exercise the following functions and powers:

(i) to decide on the Company's operating policies, strategic development plans and investment plans;

(ii) to elect and replace the directors and decide on remuneration matters of directors;

(iii) to elect and replace shareholder representative supervisors and external supervisors and decide on remuneration matters of supervisors;

(iv) to consider and approve the reports of the Board;

(v) to consider and approve the reports of the board of supervisors;

(vi) to consider and approve the annual financial budgets and final accounts of the Company;

(vii) to consider and approve the profit distribution plans and loss recovery plans of the Company;

(viii) to adopt a resolution on the increase or decrease in the registered capital of the Company;

(ix) to adopt a resolution on matters including the merger, division, dissolution, liquidation or conversion of the corporate form of the Company;

(x) to adopt a resolution on issuing bonds by the Company;

(xi) to adopt a resolution on the engagement, dismissal or replacement of accounting firm of the Company;

(xii) to make amendments to the Articles of Association;

(xiii) to consider major equity investment, investment of debentures, purchases of assets, disposal of assets, writing off of assets and external guarantees in the course of proprietary business that requires the approval from the general meeting pursuant to the laws, regulations and listing rules of the listing place;

(xiv) to consider and approve share incentive plans;

(xv) to consider related party transactions which are required by the laws and securities regulations of the place where the Company's shares are listed to be considered and approved by the general meeting;

(xvi) to consider any matters proposed by shareholders, individually or in aggregate, representing 5% or more of the shares of the Company with voting rights;

(xvii) to consider and approve the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors;

(xviii) other matters which are required by the laws, administrative regulations, the listing rules of the listing place and the Articles of Association to be resolved by the general meeting.

The above matters which are within the scope of authority of the general meeting shall be considered and approved by the general meeting. The general meeting shall be clear and specific with regard to the contents authorised to the Board. ~~However, t~~The general meeting may authorise the Board to decide on ~~such~~ specific matters related to the matters to be resolved that cannot or need not be decided immediately at the general meeting under necessary, reasonable and lawful circumstances, except for the authority of the general meeting which shall not be delegated to the Board under the laws, regulations and regulatory provisions. Matters which are subject to approval by the CBIRC or its local office shall not take effect unless such approvals are duly obtained.

Article ~~116~~117. The Company shall have independent directors. Independent directors of the Company refer to directors who satisfy with the independence requirement as stipulated by the rules of the securities regulatory authority of the place where the shares of the Company are listed, who neither take up any other position in the Company other than serving as directors nor have any relationship with the Company or its substantial shareholders that may affect their independent and objective judgement. Independent directors shall not concurrently hold positions in two trust companies.

One third or more members of the Board shall be independent directors.

The Board, the board of supervisors, and shareholders who individually or jointly hold 1% or more of the shares of the Company may nominate candidates for independent directors to be elected at the general meetings. Shareholders and their related parties who have nominated any non-independent directors are prohibited from nominating independent directors.

Except as otherwise provided for in this section, the provisions in Section 1 of this chapter shall apply to the independent directors.

Article ~~123~~124. The Board shall be accountable to the general meeting and shall exercise the following powers:

(i) to convene general meetings and to report its work to the general meeting;

(ii) to implement the resolutions of the general meeting;

(iii) to decide on the operation plans and investment plans of the Company;

(iv) to formulate the annual financial budgets and final accounts of the Company;

(v) to formulate the profit distribution plans and loss recovery plans of the Company;

(vi) to formulate proposals for the increase or reduction of the registered capital of the Company;

(vii) to prepare plans for the material acquisition or merger, division, dissolution or change of corporate form of the Company;

(viii) to prepare plan for repurchase of the shares of the Company because of the circumstances under items (i) and (ii) as required in Article 30;

(ix) to pass resolutions on repurchase of the shares of the Company because of the circumstances under items (iii), (v) and (vi) as required in Article 30;

(x) to formulate plans for the issuance of corporate bonds, any types of shares, warrants or other marketable securities and listing;

(xi) to decide on the establishment of internal management departments of the Company and the establishment or revocation of the branches and other subbranches of the Company;

(xii) to elect the chairman and vice chairman of the Board of the Company;

(xiii) to appoint or dismiss the general manager of the Company and secretary to the Board pursuant to the nominations by the chairman of the Board of the Company; to appoint or dismiss vice general manager, chief financial officer and other senior management members pursuant to the nominations by the general manager and to decide on their remunerations, incentives and punishments; and to supervise senior management in performing their duties;

(xiv) to formulate the basic management system of the Company and terms of reference of all special committees under the Board;

(xv) to prepare plans for amendments to the Articles of Association, Procedural Rules for the General Meeting and Procedural Rules for the Board;

(xvi) to formulate the share incentive schemes of the Company;

(xvii) to ~~manage~~ be responsible for the matters in relation to the information disclosure of the Company and assume ultimate responsibility for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports;

(xviii) to decide on the establishment of special committees and to elect their members;

(x~~v~~ix) to decide on the risk management system of the Company which covers risk assessments, financial control, internal audit, money laundering risk management and legal risk control and monitor its implementation; to determine the Company's risk tolerance, risk management and internal control policies, and assume the ultimate responsibility for comprehensive risk management;

(xx) to propose the appointment or replacement of the accounting firm that provides the Company with auditing services for annual financial statements to the general meeting, and decide on its audit fees;

(xxi) to listen to the regular or non-regular work reports from the general manager of the Company or the senior management members of the Company appointed by the general manager, and to approve the work reports of the general manager;

(xxii) to consider and approve the major financial accounting policies and changes to accounting estimates;

(xxiii) to decide on the staffing arrangement, plan on remuneration and performance appraisal of the senior management members;

(xxiv) to consider the material equity investments, bond investments, acquisition of assets, disposal of assets, write off of assets and external guarantee and other transaction matters in the proprietary business except for those which shall be approved by the general meetings in accordance with the Articles of Association;

(xxv) to consider the material related party transactions which shall be approved by the Board pursuant to laws, regulations and listing rules of the place where the securities of the Company are listed;

(xxvi) to consider and approve the matters related to data governance in accordance with the laws, regulations, regulatory provisions and the Articles of Association;

(xxvii) to determine the development strategies of the Company and oversee their implementation;

(xxviii) to determine capital plans of the Company and assume ultimate responsibility for capital or solvency management;

(xxix) to regularly assess and improve corporate governance of the Company;

(xxx) to safeguard the legitimate interests of financial consumers and other stakeholders;

(xxxi) to establish a mechanism for identifying, reviewing and managing conflicts of interest between the Company and shareholders, especially substantial shareholders;

(xxxii) to assume responsibility for the management of shareholders' affairs;

(xxxiii) to exercise other functions and powers conferred by laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, regulatory provisions, the general meetings and the Articles of Association.

Except that the matters set out in sub-paragraphs (v), (vi), (vii), (viii), (ix), (x), (xiii), (xv) and (xxiv)shall require the approval of more than two-thirds of the directors and shall not be voted on by way of written resolution, the adoption of resolutions by the Board on the matters set out in the preceding paragraph shall require the approval by more than half of the directors. The Board shall perform its duties in accordance with the PRC laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, the Articles of Association and resolutions of the general meetings.

The Board of the Company shall explain to the general meeting in respect of auditor's report with a qualified opinion issued by the certified public accountants regarding the financial report of the Company.

Article ~~151~~152. According to the Constitution of the Chinese Communist Party and other relevant provisions, the Company shall set up the organisation of the Chinese Communist Party, establish work institutions of the party and assign personnel to handle party affairs. Upon approval of the higher party committee, the Company shall set up the party committee of Shandong International Trust Co., Ltd. (hereinafter referred to as the Party Committee of the Company) and the disciplinary inspection committee of Shandong International Trust Co., Ltd. (hereinafter referred to as the Disciplinary Inspection Committee of the Company). ~~The party organisation is subordinate to the higher Party committee.~~ The selection of candidate for party secretary, deputy party secretary, disciplinary inspection committee secretary and committee member shall be subject to the discussion and approval of the higher party committee. The party organisation of the Company is subordinate to the CPC Committee of Shandong Lucion Investment Holdings Group Co., Ltd.

Article ~~153~~154. The Party ~~organisation~~ Committee of the Company shall play a core leadership ~~and core political~~ role and insist on ensuring the correct direction, managing the overall situation and ensuring the implementation of works. By way of thoroughly implementing the theory, path, principles and policies of the party, the Company makes clear the correct direction of reform and development; by way of discussing material matters and identifying key points, the Company strengthens collective leadership, promotes scientific decision-making and motivates the Company to fully perform its economic, politic and social responsibilities; with the management of cadres and talents of the party, the Company shall be equipped with a strengthened leadership team and working team so as to provide talent support for corporate reform and development; by way of capitalising on grassroots organisations and laying a sound foundation, the Company exerts the role of Party organisation as the barrier amid a battle and the role of Party members as pioneers and models in order to lead the mass organisations, strengthen ideological and political works and work together to promote the implementation of each task and mission; by way of implementing its primary responsibility and supervisory responsibility, the Company shall reinforce the establishment of honest governance and anti-corruption works so as to promote integrity, strengthen discipline and prevent risks.

Article ~~154~~155. The Company shall optimise and improve relevant rules and regulations to clarify the scope of responsibilities between the Party Committee of the Company and the general meeting, the board of directors, the board of supervisors and the manager level while including institutional setting, division of responsibility, personnel allocation, working tasks and guarantee of funds in the management mechanism, management policy and working ethics, which shall facilitate the set-up of a well-coordinated mechanism for corporate governance with clear delineation of works and responsibilities that operates in a well-balanced manner.

The Party Committee of the Company shall, in accordance with the Constitution of the Communist Party of China and other internal laws and regulations of the Party, perform the following duties:

(i) thoroughly study and implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, strengthen the Party's political building of the Company, adhere to and implement the fundamental systems, basic systems and important systems of Socialism with Chinese Characteristics, ensure and supervise the Company's implementation of policies and guidelines of the Party and the State and implement major strategic decisions of the Central Committee of the Party and the State Council, as well as important work arrangements of higher-level Party organisations;

(ii) strengthen its leadership and gate-keeping role in the management of the process of selection and appointment of personnel, focus on the building of the leadership team, cadre team and talent team of the Company, focus on standards, procedure, evaluation, recommendation and supervision; uphold the integration of the principle that the Party supervises the cadres with the lawful selection of the senior management by the Board as well as the lawful exercise of staff deployment right by the senior management;

(iii) research and discuss the reform, development and stability of the Company, major operational and management issues and major issues concerning employee interests, and put forth comments and suggestions. Support the general meeting, the Board, the board of supervisors and the senior management in performing their duties in accordance with law and support the employee representatives meeting in carrying out its work;

(iv) assume the primary responsibility to run the Party comprehensively with strict discipline, lead the Company's thinking and political work, the united front work, ideological work, spiritual and civilised construction, corporate culture cultivation as well as the work of groups such as the labour union and the Communist Youth League; lead the construction of the Party's working style and its clean and honest administration, and support the Party's discipline inspection institutions in earnestly performing their supervisory responsibilities;

(v) strengthen the building of the Company's grassroots Party organisations and of its contingent of Party members, give full play to the role of Party branches as strongholds and to the role of Party members as pioneers and fine examples, and unite and lead cadres and employees to devote themselves into the reform and development of the Company;

(vi) other material matters that fall within the duty of the Party Committee.

Article ~~163~~164. The nomination method and procedures of the Shareholder Representative Supervisors are set forth as follows:

(i) the candidates for the post of Shareholder Representative Supervisor shall be nominated by putting forward proposals by the board of supervisors or the shareholders individually or jointly holding 5% or more of the shares of the Company carrying voting rights, and the basic information, biographies and other written materials shall be attached thereto;

(ii) a candidate for the post of Shareholder Representative Supervisor shall, prior to the convening of the general meeting, give written undertakings that he agrees to accept the nomination and that the personal information publicly disclosed is true and complete, and warrants to fulfil his duties with due diligence once being elected. The written notice of the intention to nominate a candidate for the post of Shareholder Representative Supervisor and the written notice by such candidate of his willingness to accept the nomination and relevant written materials with the information of the nominee, shall be sent to the Company at least 10 days prior to the convening of the general meeting;

(iii) the Company shall disclose the detailed information of the candidates for the post of Shareholder Representative Supervisor at least seven days prior to the convening of the general meeting to ensure that shareholders could have sufficient knowledge of the candidates when casting their votes;

(iv) the general meeting shall consider and vote on the election of the candidates for the post of Shareholder Representative Supervisor one by one.

The external supervisors shall be nominated by the Board of Supervisors and shareholders individually or jointly holding more than 1% of the Company's total voting shares and shall be elected at a general meeting. At least one independent director or external supervisor shall be nominated by shareholders holding or controlling less than 5% of the Company's shares or voting rights.

Note: If the numbering of the articles has been changed due to the addition or deletion of certain articles, the numbering of the articles in the Articles of Association shall be adjusted accordingly, including the numbering of other articles quoted in the relevant articles.

The Proposed Amendments to the Procedural Rules for the General Meeting are as follows:

Article 1 In order to improve the corporate governance structure of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Company"), regulate the operation procedure of the general meeting, and give full play to the decision-making function of the general meeting, the Procedural Rules for the General Meeting of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Rules") are formulated in accordance with the Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as the "Securities Law"), the Trust Law of the People's Republic of China (hereinafter referred to as the "Trust Law"), the Administrative Measures of Trust Companies, the Guidelines for Governance of Trust Companies, ~~the Guidelines for Corporate Governance of Commercial Banks~~ the Standards for Corporate Governance of Banking and Insurance Institutions, the Interim Measures for the Equity Management of Trust Companies, the Special Regulations of the State Council on the Overseas Share Offering and Listing of Joint Stock Limited Companies (hereinafter referred to as the "Special Regulations"), the Mandatory Provisions for Articles of Association of Companies Listing Overseas, the Opinion Letter on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other laws and regulations, and the provisions of the Articles of Association of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Articles of Association") in combination with the actual situation of the Company.

Article 8 The general meeting shall exercise the following functions and powers:

(1) to decide on the Company's operating policies, strategic development plans and investment plans;

(2) to elect and replace the directors and decide on remuneration matters of directors;

(3) to elect and replace shareholder representative supervisors and external supervisors and decide on remuneration matters of supervisors;

(4) to consider and approve the reports of the Board;

(5) to consider and approve the reports of the board of supervisors;

(6) to consider and approve the annual financial budgets and final accounts of the Company;

(7) to consider and approve the profit distribution plans and loss recovery plans of the Company;

(8) to adopt a resolution on the increase or decrease in the registered capital of the Company;

(9) to adopt a resolution on matters including the merger, division, dissolution, liquidation or conversion of the corporate form of the Company;

(10) to adopt a resolution on issuing bonds by the Company;

(11) to adopt a resolution on the engagement, dismissal or replacement of accounting firm of the Company;

(12) to make amendments to the Articles of Association;

(13) to consider major equity investment, investment of debentures, purchases of assets, disposal of assets, writing off of assets and external guarantees in the course of proprietary business that requires the approval from the general meeting pursuant to the laws, regulations and listing rules of the listing place;

(14) to consider and approve share incentive plans;

(15) to consider related party transactions which are required by the laws and securities regulations of the place where the Company's shares are listed to be considered and approved by the general meeting;

(16) to consider any matters proposed by shareholders, individually or in aggregate, representing 5% or more of the shares of the Company with voting rights;

(17) to consider and approve the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors;

(18) other matters which are required by the laws, administrative regulations, the listing rules of the listing place and the Articles of Association to be resolved by the general meeting.

Any matter within the above scope of functions and powers of the ~~shareholders~~ general meeting shall be considered and decided on by the ~~shareholders~~ general meeting~~ or,~~. For specific matters related to the matters to be resolved that cannot or need not be decided immediately at the general meeting under necessary, reasonable and lawful circumstances, the ~~shareholders'~~ general meeting may authorise or delegate power to the ~~b~~Board of ~~d~~Directors to carry out matters authorised or delegated ~~provided that such authorisation or delegation does not violate the laws, regulations and mandatory provisions of the listing rules of the place where the shares of the Company are listed~~. The authorisation shall be clear and concrete, except for the authority of the general meeting which shall not be delegated to the Board under the laws, regulations and regulatory provisions. Matters that require approval by the CBIRC or its local offices shall become effective upon approval by the CBIRC or its local offices.

If authorised matters belong to the matters that should be passed by ordinary resolution of the general meeting of shareholders as specified by the Articles of Association, the authorisation the general meeting of shareholders gives to the Board shall be passed by more than half of the voting rights represented by the shareholders (including agents) present at the general meeting. If authorised matters belong to the matters that should be passed by special resolution of the general meeting of shareholders as specified by the Articles of Association, the authorisation shall be passed by more than 2/3 of the voting rights represented by the shareholders (including agents) present at the general meeting.

Article 43 The list of candidates for directors and supervisors shall be submitted to the general meeting by way of proposals.

The Board, the board of supervisors, and shareholders who individually or jointly hold 1% or more of the shares of the Company may nominate candidates for independent directors to be elected at the general meetings. Shareholders and their related parties who have nominated any non-independent directors are prohibited from nominating independent directors.

The general meeting shall vote on each candidate for directors and supervisors one by one when considering the proposals for election of directors and supervisors.

Article 54 The chairperson of the meeting shall be responsible for determining whether a resolution has been adopted based on the voting result and the voting result shall be announced at the meeting. The voting result shall be recorded in the minutes of the meeting. If the chairperson of the meeting has any doubt as to the voting result of a resolution which has been put to vote at a general meeting, he/she may have the votes counted.

If the chairperson of the meeting has not counted the votes, any shareholder or proxy who attends the meeting in person and who objects to the result announced by the chairperson of the meeting may, immediately after the announcement of the result, demand that the votes be counted and the chairperson of the meeting shall have the votes counted immediately.

If votes are counted at a general meeting, the result of such counting shall be recorded in the minutes of the meeting.

The minutes of the meeting shall be true and complete. The minutes of the meeting shall be signed by the directors who attend the meeting and the chairperson of the meeting.

The minutes of the meeting, together with the attendance book signed by the attending shareholders and the proxy forms for proxies attending the meeting shall be deposited at the domicile of the Company. The abovementioned minutes of the meeting, the attendance book and the proxy forms for proxies for at least 15 years.

The resolutions passed at the general meeting and related documents shall be reported to the CBIRC or its local offices for record.

The Proposed Amendments to the Procedural Rules for the Board of Directors are as follows:

Article 1 In order to improve the corporate governance structure of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Company"), regulate the discussion methods and decision-making process of the Board, promote the directors and Board to effectively perform their duties and improve the standard operation and scientific decision-making level of the Board, the Procedural Rules for the Board of Directors of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Rules") are formulated in accordance with the Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as the "Securities Law"), the Trust Law of the People's Republic of China (hereinafter referred to as the "Trust Law"), the Administrative Measures of Trust Companies, the Guidelines for Governance of Trust Companies, ~~the Guidelines for Corporate Governance of Commercial Banks~~ the Standards for Corporate Governance of Banking and Insurance Institutions, the Interim Measures for the Equity Management of Trust Companies, the Special Regulations of the State Council on the Overseas Share Offering and Listing of Joint Stock Limited Companies (hereinafter referred to as the "Special Regulations"), the Mandatory Provisions for Articles of Association of Companies Listing Overseas, the Opinion Letter on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong, the Guidelines for the Articles of Association of Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Hong Kong Listing Rules", including the Corporate Governance Code (hereinafter referred to as the "Corporate Governance Code") as set out in Appendix 14 of the Hong Kong Listing Rules) and other laws and regulations, and the provisions of the Articles of Association of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Articles of Association") in combination with the actual situation of the Company.

Article 4 The Board shall be accountable to the general meeting and shall exercise the following powers:

(1) to convene general meetings and to report its work to the general meeting;

(2) to implement the resolutions of the general meeting;

(3) to decide on the operation plans and investment plans of the Company;

(4) to formulate the annual financial budgets and final accounts of the Company;

(5) to formulate the profit distribution plans and loss recovery plans of the Company;

(6) to formulate proposals for the increase or reduction of the registered capital of the Company;

(7) to prepare plans for the material acquisition, or merger, division, dissolution or change of corporate form of the Company;

(8) to prepare plans for repurchase of corporate shares arising from the conditions required under items (1) and (2) of Article 30 of the Articles of Association of the Company;

(9) to resolve in respect of repurchase of the shares of the Company because of the circumstances under items (3), (5) and (6) of Article 30 of the Articles of Association of the Company;

(10) to formulate plans for the issuance of corporate bonds, any types of shares, warrants or other marketable securities and listing;

(11) to decide on the establishment of internal management departments of the Company and the establishment or revocation of the branches and other sub-branches of the Company;

(12) to elect the chairman and vice chairman of the Board of the Company;

(13) to appoint or dismiss the general manager of the Company and secretary to the Board pursuant to the nominations by the chairman of the Board of the Company; to appoint or dismiss vice general manager, chief financial officer and other senior management members pursuant to the nominations by the general manager and to decide on their remunerations, incentives and punishments; and to supervise senior management in performing their duties;

(14) to formulate the basic management system of the Company and terms of reference of all special committees under the Board;

(15) to prepare plans for amendments to the Articles of Association, Procedural Rules for the General Meeting and Procedural Rules for the Board;

(16) to formulate the share incentive schemes of the Company;

(17) to ~~manage~~ be responsible for the matters in relation to the information disclosure of the Company and assume ultimate responsibility for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports;

(18) to decide on the establishment of special committees and to elect their members;

(19) to decide on the risk management system of the Company which covers risk assessments, financial control, internal audit, money laundering risk management and legal risk control and monitor its implementation; to determine the Company's risk tolerance, risk management and internal control policies, and assume the ultimate responsibility for comprehensive risk management;

(20) to propose the appointment or replacement of the accounting firm that provides the Company with auditing services for annual financial statements to the general meeting, and decide on its audit fees;

(21) to listen to the regular or non-regular work reports from the general manager of the Company or the senior management members of the Company appointed by the general manager, and to approve the work reports of the general manager;

(22) to consider and approve the major financial accounting policies and changes to accounting estimates;

(23) to decide on the staffing arrangement, plan on remuneration and performance appraisal of the senior management members;

(24) to consider the material equity investments, bond investments, acquisition of assets, disposal of assets, write off of assets and external guarantee and other transaction matters in the proprietary business except for those which shall be approved by the general meetings in accordance with the Articles of Association;

(25) to consider the material related party transactions which shall be approved by the Board pursuant to laws, regulations and the Hong Kong Listing Rules;

(26) to consider and approve the matters related to data governance in accordance with the laws, regulations, regulatory provisions and the Articles of Association;

(27) to determine the development strategies of the Company and oversee their implementation;

(28) to determine capital plans of the Company and assume ultimate responsibility for capital or solvency management;

(29) to regularly assess and improve corporate governance of the Company;

(30) to safeguard the legitimate interests of financial consumers and other stakeholders;

(31) to establish a mechanism for identifying, reviewing and managing conflicts of interest between the Company and shareholders, especially substantial shareholders;

(32) to assume responsibility for the management of shareholders' affairs;

(33) to exercise other functions and powers conferred by laws, regulations, the Hong Kong Listing Rules, regulatory provisions, the general meetings and the Articles of Association, including but not limited to:

(1) to formulate and check the policies and practice of corporate governance, and propose recommendations on the Board;

(2) to check and monitor the training of directors and senior management personnel and sustainable professional development;

(3) to check and monitor the policies and practice in respect of the compliance of requirements of laws and regulations of the Company;

(4) to formulate, check and monitor the code of conduct and compliance manual (if any) of employees and directors;

(5) to check the compliance of Corporate Governance Code and the disclosures in the Corporate Governance Report of the Company.

Except that the matters set out in sub-paragraphs (5), (6), (7), (8), (9), (10), (13), (15) and (24) shall require the approval of more than two-thirds of the directors and shall not be voted on by way of written resolution, the adoption of resolutions by the Board on the matters set out in the preceding paragraph shall require the approval by more than half of the directors. The Board shall perform its duties in accordance with the PRC laws, regulations, listing rules of the stock exchange of the place where the shares of the Company are listed, the Articles of Association and resolutions of the general meetings.

The Board of the Company shall explain to the general meeting in respect of auditor's report with a qualified opinion issued by the certified public accountants regarding the financial report of the Company.

The Board shall assume responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors shall act objectively and make decisions in the best interests of the Company.

The Board shall regularly review the contribution required from a director to perform his/her responsibilities to the Company, and whether the director is spending sufficient time performing them.

Article 8 The duties and responsibilities of independent directors shall include, but are not limited to:

(1) to propose to the Board to convene extraordinary general meetings or Board Meeting;

(2) to submit work reports to the general meeting;

(3) to appoint an audit firm or a consulting firm based on their needs to perform the duties, and the expenses shall be borne by the Company;

(4) to provide independent opinions on important business matters and to report the related party transactions separately to the CBIRC or its local offices;

(5) to provide independent opinions on the remuneration plans and incentive plans for directors and senior management members of the Company;

(6) other duties or rights conferred by laws and regulations, the Hong Kong Listing Rules and the Articles of Association.

Independent directors shall work in the Company for no less than 15 working days per year.

Article 9 The ~~Securities Affairs Department~~ Office of the Board of Directors (Supervisors) is in charge of the daily operations of the Board of the Company. It is responsible for to the preparation of the general meetings and the meetings of the Board, the record keeping of the meetings and the maintenance of meeting documents, information disclosure and other daily affairs as well as filing the meeting documents of the general meetings and the Board with CBIRC or its local offices.

Upon reasonable request, the directors may seek independent professional advice in appropriate circumstances, at the Company's expense. The Board should resolve to provide separate independent professional advice to the directors to assist them with performing their duties to the Company. The Company should arrange appropriate insurance cover in respect of legal action against its directors.

The Proposed Amendments to the Procedural Rules for the Board of Supervisors are as follows:

Article 1 In order to improve the corporate governance structure of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Company"), regulate the operation procedure of the Board of Supervisors, ensure the performance of duties and responsibilities of the Board of Supervisors conferred by all shareholders, the Procedural Rules for the Board of Supervisors of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Rules") are formulated in accordance with the Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as the "Securities Law"), the Trust Law of the People's Republic of China (hereinafter referred to as the "Trust Law"), the Administrative Measures of Trust Companies, the Guidelines for Governance of Trust Companies, ~~the Guidelines for Corporate Governance of Commercial Banks,~~ the Standards for Corporate Governance of Banking and Insurance Institutions, the Interim Measures for the Equity Management of Trust Companies, the Special Regulations of the State Council on the Overseas Share Offering and Listing of Joint Stock Limited Companies (hereinafter referred to as the "Special Regulations"), the Mandatory Provisions for Articles of Association of Companies Listing Overseas, the Opinion Letter on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong, the Guidelines for the Articles of Association of Listed Companies and other laws and regulations, and the provisions of the Articles of Association of Shandong International Trust Co., Ltd. (hereinafter referred to as the "Articles of Association") in combination with the actual situation of the Company.

Article 13 The board of supervisors shall exercise the following functions and powers in accordance with laws:

(1) to examine the financial conditions of the Company, understand the operations of the Company, and undertake the corresponding obligations of confidentiality, and the board of supervisors may, in the name of the Company, engage an accounting firm to independently examine the financial conditions of the Company, if necessary;

(2) to supervise the performance of duties by the directors and senior management members of the Company and to propose the removal of directors and senior management members who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general meeting;

(3) to urge directors and other senior management members of the Company to rectify their acts which impair the interests of the Company;

(4) to propose to convene an extraordinary general meeting, and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meeting as stipulated by the Company Law;

(5) to put forward proposals at a general meetings;

(6) to negotiate with directors and senior management members of the Company on behalf of the Company, or to initiate lawsuits against directors and senior management members of the Company in accordance with the Company Law;

(7) to be entitled to require directors or senior management members to attend meetings of the board of supervisors to answer questions;

(8) to verify financial information such as financial reports, business reports and profit distribution plans that the Board intends to submit to the general meeting and, in case any problem is identified, to be able to appoint, in the name of the Company, a registered accountant or practicing auditor to assist in reviewing such information, and the expenses shall be borne by the Company;

(9) to elect the chairman of the board of supervisors;

(10) to formulate the Procedural Rule for the Board of Supervisors;

(11) other functions and powers provided by laws, regulations and the Articles of Association.

The Company shall report its internal audit report, compliance inspection report, financial accounting report and other significant matters to the board of supervisors in a timely manner. Supervisors shall observe the Board meetings and raise questions or recommendations on the matters to be resolved of the Board, but shall not be entitled to vote thereon. Where significant matters are identified, the supervisors may report to the CBIRC or its local offices separately.

Article 16 The ~~Securities Affairs Department~~ Office of the Board of Directors (Supervisors) will be in charge of the organisation work of the Board of Supervisors.

Prior to 10 days before convening a meeting of the Board of Supervisors, the Company should notify the Supervisors of such meeting by telex, telegram, fax, registered mail, e-mail or personal delivery. Such notice period may be waived with the written consent of all the Supervisors.

The meeting notice should contain the date and venue of the meeting, duration of the meeting, reasons for and proposals of the meeting, the date of giving such notice as well as the liaison and his/her telephone number and fax number.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors, Supervisors, senior management or their respective associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including the interests or short positions which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance); (ii) to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the Company has been notified by the following persons in relation to their interests or short positions in the Shares and underlying Shares of the Company which are discloseable pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, and such interests or short positions recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance are as follows:

Name of Shareholder	Class of shares	Nature of interests[(1)]	Number of underlying shares held[(2)]	Approximate percentage of the class of underlying shares[(2)]	Approximate percentage of total share capital[(2)]
Shandong High-Tech[(3)]	Domestic Shares	Beneficial owner	125,000,000	6.44%	4.83%
Lucion Venture Capital Group Co., Ltd.[(3)]	Domestic Shares	Interest in a controlled corporation	125,000,000	6.44%	4.83%
Lucion Group[(3)]	Domestic Shares	Beneficial owner	2,242,202,580	64.17%	48.13%
	Domestic Shares	Interest in a controlled corporation	225,000,000	6.44%	4.83%

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

Notes:

(1) All of the interests refer to long positions.

(2) The Company completed the issue of new shares by way of the transfer of capital reserve to share capital in January 2019. Since the change in number of shares arising from the capitalisation issue did not constitute reporting obligation pursuant to the Securities and Futures Ordinance, the number of shares held by certain Shareholders as disclosed in the forms of disclosure of interests does not reflect the impact of the capitalisation issue.

(3) Shandong High-Tech is a direct wholly-owned subsidiary of Lucion Venture Capital Group Co., Ltd. ("**Lucion Venture Capital**"). Lucion Venture Capital is a non-wholly owned subsidiary owned as to 69.57% by Lucion Group and therefore is deemed to be interested in all of the shares of the Company held by Shandong High-Tech, and Lucion Group is deemed to be interested in all of the shares of the Company held indirectly by Lucion Venture Capital.

(4) Lucion Group is owned as to 90.39% by Shandong Provincial Finance Bureau and as to 9.61% by Shandong Caixin Assets Operation Co., Ltd., which is wholly-owned by the Shandong Provincial Finance Bureau. Shandong Provincial Finance Bureau is therefore deemed to be interested in all of the shares of the Company directly and indirectly held by Lucion Group.

(5) CNPC Assets Management is a direct wholly-owned subsidiary of CNPC Capital Company Limited ("**CNPC Capital**") and CNPC Capital is wholly-owned by CNPC Capital Joint Stock Company with Limited Liability ("**CNPC**"). CNPC, which is an A share listed company, is held as to 77.35% by China National Petroleum Corporation. Each of CNPC Capital, CNPC and China National Petroleum Corporation are therefore deemed to be interested in all of the shares of the Company held by CNPC Assets Management.

(6) To the knowledge of the Company, Jinan Finance Holding has been directly held by Jinan Finance Bureau since 14 February 2022. The number of shares reflected their interests as at the Latest Practicable Date. Since the changes in their interests did not constitute reporting obligation pursuant to the Securities and Futures Ordinance, the updated numbers of shares were not reflected in their forms for disclosure of interest.

(7) Qingdao Global Wealth Center Development and Construction Co., Ltd. is wholly owned by Qingdao Laoshan District Finance Bureau and Qingdao Laoshan District Finance Bureau is therefore deemed to be interested in all of the shares of the Company held by Qingdao Global Wealth Center Development and Construction Co., Ltd.

(8) Chang Xin Asset Management Co., Ltd. holds the equity of the Company's shares as a trustee of the trust for the Chang Xin Fund-Dongfang No.1 Single Asset Management Plan.

DIRECTORS' INTEREST IN COMPETING BUSINESS

A non-executive Director of the Company, Mr. Wang Zengye is also the chairperson of the Kunlun Trust Co., Ltd. ("**Kunlun Trust**") whose principal business is to manage assets as trustees for its clients in the PRC, being a competing business to the Company. Kunlun Trust is a non-wholly owned subsidiary of CNPC Assets Management, a substantial shareholder of the Company. Save for (i) the shareholding of CNPC Assets Management in the Company, (ii) Mr. Wang Zengye's directorship in the Company and Kunlun Trust, and (iii) the positions held by Mr. Chen Yong, a Supervisor (who holds several positions in CNPC Assets Management and Kunlun Trust), the Company does not have any other relationship with CNPC Assets Management or Kunlun Trust. As such, the Directors are of the view that the Company is capable of carrying out its businesses independently from CNPC Assets Management and Kunlun Trust. In addition, the Company has adopted certain corporate governance measures to manage the conflict of interest arising from the competing interests of Mr. Wang Zengye. Save as disclosed above, as at the Latest Practicable Date, each of the controlling shareholders and the Directors confirms that he, she or it does not have any interest in a business, apart from the business of the Company, which competes or is likely to compete, directly or indirectly, with the Group's businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors and Supervisors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

According to the Articles of Association, the terms of service of both the Directors and the Supervisors are for three years, and all Directors and Supervisors are subject to re-appointment or re-election upon the expiry of their term. Each of the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors has entered into a service contract with the Company for a term of three years. Save as disclosed above, none of the Directors or the Supervisors have entered into, or have proposed to enter into, a service contract with the Company (other than contracts determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

INTERESTS IN CONTRACTS/ARRANGEMENTS OF DIRECTORS AND SUPERVISORS

Since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors and Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Group.

EXPERT AND CONSENT

The qualification(s) of the expert who has given opinions or advice contained in this circular are as follows:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advices and/or references to its name in the form and context in which they respectively appear.

Gram Capital was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date.

Since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sitic.com.cn) from the date of this circular up to and including the date of the EGM:

(a) the Transfer Agreement;

(b) the letter from the Independent Board Committee;

(c) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders;

(d) the written consent given by Gram Capital; and

(e) this circular.

MISCELLANEOUS

(a) The company secretary of the Company is Mr. He Chuangye.

(b) The registered office of the Company is at No.166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC. The principal place of business of the Company in the PRC is at partial area of 1/F, 2/F and 13/F, 32-35/F and 40/F, Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC. The principal place of business of the Company in Hong Kong is at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

(c) Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

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)

NOTICE OF 2022 FOURTH EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the fourth extraordinary general meeting of Shandong International Trust Co., Ltd. (the "**Company**") for the year 2022 (the "**EGM**") will be held at Tower A, No. 2788 Aoti West Road, Lixia District, Jinan, Shandong Province, the PRC on Thursday, 29 December 2022 at 9:30 a.m. to consider and, if thought fit, to pass the following resolutions. Unless the content otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company date 14 December 2022.

SPECIAL RESOLUTIONS

(1) To consider and approve the Debt Transfer and the Transfer Agreement:

(a) the execution of the Transfer Agreement be and is hereby confirmed, ratified and approved and the transaction contemplated thereunder be and is hereby approved; and

(b) any one or more Directors be and are hereby authorised to do all such acts and things as they consider necessary and to sign and execute all such documents (including under the seal of the Company), and to take all such steps which in their opinion may be necessary appropriate, desirable or expedient for the purpose of giving effect to the Transfer Agreement and completing the transaction contemplated thereunder;

(2) To consider and approve the Proposed Amendments to the Articles of Association and authorise the Board of Directors to make corresponding adjustments to the Articles of Association in accordance with the opinions or requirements of the regulatory authorities and relevant departments, and handle the relevant matters such as the approval of the amendments to the Articles of Association and the filing with the market supervision and management department;

(3) To consider and approve the Proposed Amendments to the Procedural Rules for the General Meeting;

(4) To consider and approve the Proposed Amendments to the Procedural Rules for the Board of Directors; and

(5) To consider and approve the Proposed Amendments to the Procedural Rules for the Board of Supervisors.

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

Jinan, the People's Republic of China
14 December 2022

Notes:

1. The holders of H shares and domestic shares whose names appear on the registers of the members of the Company on Thursday, 29 December 2022 are entitled to attend and vote at the EGM. The registers of members of the Company will be closed from Thursday, 22 December 2022 to Thursday, 29 December 2022, both days inclusive, during which no transfer of Shares can be registered. All transfer documents together with the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H shares) or the Office of the Board of Directors (Supervisors) of the Company (for holders of domestic shares) not later than 4:30 p.m. on Wednesday, 21 December 2022.

2. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote at the meeting on his/her behalf. A proxy needs not be a shareholder.

3. A proxy shall be appointed by an instrument in writing (including the proxy form). Such instrument shall be signed by the appointor or his/her attorney duly authorised in writing. If the appointor is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H share registrar for holders of H shares or at the Office of the Board of the Directors (Supervisors) of the Company for holders of domestic shares not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting (i.e. by 9:30 a.m. on Wednesday, 28 December 2022). If the instrument appointing the proxy is signed by a person authorised by the appointor, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H share registrar or the Office of the Board of Directors (Supervisors) of the Company (as may be applicable).

4. Shareholders or their proxies are required to produce their identification documents when attending the EGM.

5. Miscellaneous

   i. It is expected that the EGM will last for half a day. All attending shareholders shall arrange for their transportation and accommodation and shall bear all their own expenses in connection with their attendance.

   ii. Details on the abovementioned resolutions to be considered and approved at the EGM are set out in the circular of the Company in respect of the EGM dated 14 December 2022.

   iii. The address of Computershare Hong Kong Investor Services Limited is:

   17M Floor, Hopewell Centre
   183 Queen's Road East
   Wan Chai, Hong Kong
   Tel: (852) 2862 8555
   Fax: (852) 2865 0990

   iv. The address of the Office of the Board of Directors (Supervisors) of the Company is:

   35/F, Tower A, No. 2788 Aoti West Road
   Lixia District, Jinan
   Shandong Province, the PRC
   Tel: +86 (531) 8656 6593
   Fax: +86 (531) 8656 6593

As at the date of this notice, the Board comprises Mr. Wan Zhong and Mr. Fang Hao as executive Directors; Mr. Wang Zengye, Mr. Zhao Zikun and Ms. Wang Bailing as non-executive Directors; Mr. Yen Huai-chiang, Mr. Zheng Wei and Ms. Meng Rujing as independent non-executive Directors.