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 TRANSACTIONS AND NOTICE OF 2022 SECOND 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 Room 1204, Lucion Building, No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC on Friday, 15 July 2022 at 10:00 a.m. is set out on pages 161 to 163 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 10:00 a.m. on Thursday, 14 July 2022). Completion, signing and return of the proxy form will not preclude you from attending and voting in person at the EGM.

30 June 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"	the board of Directors 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)
"Consideration of Debt Transfer"	the total consideration for the acquisition of the Ruiyuan No.76 Debt payable by the Purchaser under the Debt Transfer Agreement
"Consideration of Equity Transfer"	the total consideration for the acquisition of the Equity Interest in Fullgoal Fund payable by the Purchaser under the Equity Transfer Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"connected person"	has the meaning ascribed to it under the Listing Rules
"Debt Transfer"	the transfer of the Ruiyuan No.76 Debt by the Company to the Purchaser pursuant to the Debt Transfer Agreement

"Debt Transfer Agreement"	the agreement dated 23 May 2022 entered into between the Company and the Purchaser in relation to the disposal of the Ruiyuan No.76 Debt and amended by the supplemental agreement dated 25 May 2022
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt by the Company to the Purchaser pursuant to the Transfer Agreements
"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 second extraordinary general meeting of the Company to be held at Room 1204, Lucion Building, No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC on Friday, 15 July 2022 at 10:00 a.m. and any adjournment thereof (as the case may be)
"Equity Interest in Fullgoal Fund"	86,710,000 shares in the share capital of Fullgoal Fund, representing 16.675% equity interest in Fullgoal Fund to be disposed of by the Company pursuant to the term of the Equity Transfer Agreement
"Equity Transfer"	the transfer of the Equity Interest in Fullgoal Fund by the Company to the Purchaser pursuant to the Equity Transfer Agreement
"Equity Transfer Agreement"	the agreement dated 23 May 2022 entered into between the Company and the Purchaser in relation to the disposal of the Equity Interest in Fullgoal Fund and amended by the supplemental agreement dated 25 May 2022
"Fullgoal Fund"	Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司), a limited liability company established on 13 April 1999 in the PRC
"Group"	the Company and the trust schemes over which it has control

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Shares(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
"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 with respect to the Disposal pursuant to the Transfer Agreements
"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 Disposal
"Independent Shareholders"	Shareholders that are not required to abstain from voting at the EGM to consider and approve the Transfer Agreements
"Independent Valuer"	China United Assets Appraisal Group Shandong Co. Ltd. (中聯資產評估集團山東有限公司), an independent property valuer
"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"	27 June 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 Luxin 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 but excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Public Tender Procedures"	the public tender procedures conducted through SFATC for the purpose of disposing of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 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 Disposal
"RMB"	Renminbi, the lawful currency of the PRC
"Ruiyuan No.76 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.76 Trust Scheme
"Ruiyuan No.76 Trust Scheme"	SITC Ruiyuan No.76 Collective Fund Trust Scheme (山東信託•睿遠76號集合資金信託計劃), a trust scheme established in February 2018 where the Company acted as the trustee and the lender of the trust loans granted thereunder
"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

"Securities and Futures Ordinance"	Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"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 Agreements"	the Equity Transfer Agreement and the Debt Transfer Agreement
"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
"Valuation Report"	the report on the valuation of the Equity Interest in Fullgoal Fund as at 30 November 2021 issued by the Independent Valuer
"%"	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 Valuation Report as set out in Appendix I is written in Chinese and there is no official English translation in respect thereof. The English translation is for reference only, and in case of any inconsistency between the English and Chinese versions, 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. Ding Huiping
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

30 June 2022

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS AND NOTICE OF 2022 SECOND EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 31 May 2022 in relation to the entering into of the Transfer Agreements in respect of the Disposal. Pursuant to the Transfer Agreements, the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt at a consideration of RMB4,038,817,800 and RMB1,000,000,000, respectively.

The purpose of this circular is to provide you with, among other things, further details of the Disposal and the Transfer Agreements in order to enable you to make an informed decision on whether to vote for or against of the resolution at the EGM.

II. PUBLIC TENDER PROCEDURES

In accordance with the relevant rules and regulations in the PRC, the Company conducted the transfers of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt under separate Public Tender Procedures with initial listed prices determined with reference to the appraised value. The Public Tender Procedures for each of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt commenced from 12 May 2022 and concluded on 20 May 2022 (the "**Publication Period**"). During the Publication Period, interested bidders were invited to indicate their intention to purchase the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt and register themselves as an interested bidder. According to the bidding conditions, the interested bidders shall acquire both of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt. The Purchaser succeeded in the open bid in relation to the Disposal.

Upon conclusion of the Public Tender Procedures on 20 May 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 Disposal between the Company and the Purchaser commenced for the purpose of entering into the Transfer Agreements. Upon signing of the Transfer Agreements 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 Disposal.

III. THE TRANSFER AGREEMENTS

Equity Transfer Agreement

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

Date

23 May 2022 and amended on 25 May 2022

Parties

(i) The Company; and

(ii) The Purchaser

Disposal

Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest in Fullgoal Fund, being 16.675% equity interest in Fullgoal Fund, representing the Company's entire interest in Fullgoal Fund.

Consideration and Payment Terms

The Consideration of Equity Transfer payable by the Purchaser for the Equity Interest in Fullgoal Fund is RMB4,038,817,800. Pursuant to the Equity Transfer Agreement, the Consideration of Equity 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 RMB800,000,000 to SFATC for participating in the Public Tender Procedures, and such amount shall be applied towards payment of the Consideration of Equity Transfer within three business days after the date of conclusion of the Publication Period (i.e. 20 May 2022);

(ii) **first and second installments:** the Purchaser shall pay the first and second installments in the amount of RMB1,100,000,000 each on 8 June 2022 and 4 July 2022, respectively, to an account designated by the Company; and

(iii) **remaining consideration:** within five business days after all conditions precedent in the Equity Transfer Agreement have been fulfilled, the Purchaser shall pay the balance of the Consideration of Equity Transfer in the amount of RMB1,038,817,800 to an account designated by the Company.

Conditions Precedent and Completion

The date of completion of the Equity Transfer (the "**Completion of the Equity Transfer**") shall be the date that the Purchaser paid the remaining consideration, and such date shall be no later than 31 March 2023. The Completion of the Equity Transfer is conditional upon the satisfaction of the following conditions:

(i) both parties have completed the necessary internal decision making processes, regulatory approval, asset appraisal and other relevant procedures in accordance with the law and regulations in relation to the execution, delivery and performance of the Equity Transfer Agreement and their obligations thereunder;

(ii) Fullgoal Fund has held shareholders' meeting to approve: (a) the Equity Transfer, and each of other existing shareholders of Fullgoal Fund has irrevocably waived its pre-empt rights to acquire the Equity Interest in Fullgoal Fund and other rights which may affect the Equity Transfer; and (b) the articles of association of Fullgoal Fund upon the Completion of the Equity Transfer;

(iii) the Equity Transfer Agreement has been duly executed by the parties and become effective;

(iv) the Public Tender Procedures for the Equity Transfer have been duly completed, SFATC has issued the transaction certificate, and the Purchaser has paid the initial deposit in the amount of RMB800 million;

(v) the Company has complied with and performed all their undertakings and obligations under the terms of the Equity Transfer Agreement in all material aspects by the times specified;

(vi) the representations and warranties made by the Company and the Purchaser in the Equity Transfer Agreement and/or any ancillary documents provided in connection with the Equity Transfer Agreement remain true, accurate, valid and complete in all material aspects at the time they were made and until the date of the Completion of the Equity Transfer, as if such representations and warranties were made on the date of the Completion of the Equity Transfer;

(vii) save for those related to the Equity Transfer, there are no other changes or potential changes in the shareholding structure of Fullgoal Fund prior to the date of the Completion of the Equity Transfer;

(viii) there has not been any change in the legal personality, asset and liability, financial position of Fullgoal Fund or its business operation that may cause material adverse impact; and

(ix) there is no law, regulation, judgment, award, ruling, injunction, court order or relevant regulatory body restricting, prohibiting or rescinding the Equity Transfer, or any pending or potential disputes or litigation, arbitration, judgment, award, ruling, injunction or order that has had or will have a material adverse effect on Fullgoal Fund or the Equity Transfer.

During the transition period (being the period from 30 November 2021 to the date of Completion of the Equity Transfer), if Fullgoal Fund declares and pays any dividend or profit distribution (including but not limited to the dividend or profit distribution for the year 2021) and the Company receives the dividend or profit distribution payment, the Company shall transfer the said amount to the account designated by the Purchaser. If the Completion of the Equity Transfer does not take place, the Company is still the shareholder of Fullgoal Fund which shall be entitled to such dividend or profit distribution. Since the Valuation Report was prepared based on the assets, financial and operation conditions of Fullgoal Fund as at 30 November 2021, any change to such conditions subsequent to 30 November 2021, such as dividend or profit distribution, would lead to adjustment of the Consideration of Equity 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 the Shareholders as a whole.

Both parties agree that if the Equity Transfer is not approved by the relevant securities regulatory authorities by 31 March 2023, or if the conditions precedent have not been fulfilled or waived upon further negotiation and agreement reached between the parties by then, the Equity Transfer Agreement shall be terminated automatically. Except for conditions (ii) and (iv) which have been fulfilled and 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 Equity Transfer if the relevant conditions are being waived. If the Purchaser fails to pay the Consideration of Equity Transfer in accordance with the payment schedule, as a result of which the Completion of the Equity Transfer does not take place, the Company can forfeit the initial deposit in the amount of RMB800 million. If the Equity Transfer Agreement is terminated automatically or due to reasons on the part of the Company, the Company shall return to the Purchaser the initial deposit and installments paid by the Purchaser and any costs of fund occupation accrued thereon within five business days after the termination. 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 Equity Transfer**").

Effective Date

Save for the Fund Return Clause for Equity Transfer which shall take effect upon the execution of the Equity Transfer Agreement on 23 May 2022, the Equity 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 Equity Transfer in accordance with the relevant requirements of the Listing Rules.

Debt Transfer Agreement

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

Date

23 May 2022 and amended on 25 May 2022

Parties

(i) The Company; and

(ii) The Purchaser

Disposal

Pursuant to the Debt Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Ruiyuan No.76 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.76 Trust Scheme.

Consideration and Payment Terms

The Consideration of Debt Transfer payable by the Purchaser for the Ruiyuan No.76 Debt is RMB1,000,000,000. Pursuant to the Debt 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 RMB200,000,000 to SFATC for participating in the Public Tender Procedures, and such amount shall be applied towards payment of the Consideration of Debt Transfer; and

(ii) **first and second installments:** the Purchaser shall pay the first and second installments in the amount of RMB400,000,000 each on 8 June 2022 and 4 July 2022, respectively, to an account designated by the Company.

Conditions Precedent and Completion

The date of completion of the Debt Transfer (the "**Completion of the Debt Transfer**") shall be the same with the date of Completion of the Equity Transfer. The Completion of the Debt Transfer is conditional upon the satisfaction of the following conditions:

(i) both parties have completed the necessary internal decision making processes, regulatory approval, asset appraisal and other relevant procedures in accordance with the law and regulations in relation to the execution, delivery and performance of the Debt Transfer Agreement and their obligations thereunder;

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

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

(iv) the Company has obtained all necessary consents, approvals, permissions and waivers in relation to the Debt Transfer, proof of which has been provided to the Purchaser;

(v) there is no law, regulation, judgment, award, ruling, injunction, court order or relevant regulatory body restricting, prohibiting or rescinding the Debt Transfer, or any pending or potential litigation, arbitration, judgment, award, ruling, injunction or order that has had or will have a material adverse effect on the Debt Transfer; and

(vi) all the conditions precedent under the Equity Transfer Agreement have been satisfied or waived.

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.76 Debt. The sum recovered under the Ruiyuan No.76 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.76 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 Debt Transfer Agreement shall be terminated automatically. Save for conditions (i), (iv) and (vi) 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 RMB200 million. If the Debt Transfer Agreement is terminated automatically or due to reasons on the part of the Company, the Company shall return to the Purchaser all the consideration (i.e. RMB1 billion) paid by the

Purchaser and any costs of fund occupation accrued thereon within five business days after the termination. 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 Debt Transfer Agreement on 23 May 2022, the Debt 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.

IV. INFORMATION OF THE PARTIES AND THE TARGETS

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% and 10% by the Shandong Province Finance Bureau and Shandong Caixin Assets Operation Co., Ltd. ("**Shandong Caixin**"), respectively. Shandong Caixin 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, holding approximately 18.75% and 5.43% of the total issued shares of the Company, respectively.

Fullgoal Fund

Fullgoal Fund is a limited liability company established in the PRC on 13 April 1999 which is principally engaged in the formation of fund and fund management. It is owned as to 16.675% by the Company and 27.775% by each of Haitong Securities Co., Ltd., Shenwan Hongyuan Securities Co., Ltd. and Bank of Montreal, respectively. Haitong Securities Co., Ltd. is a company listed on the Hong Kong Stock Exchange (stock code: 6837) and Shanghai Stock Exchange (stock code: 600837). Shenwan Hongyuan Securities Co., Ltd. is a wholly-owned subsidiary of Shenwan Hongyuan Group Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 6806) and Shenzhen Stock Exchange (stock code: 000166). Bank of Montreal is a multinational bank headquartered in Canada and listed on the Toronto Stock Exchange (stock code: BMO) and the New York Stock Exchange (stock code: BMO).

Set out below is a summary of the financial information of Fullgoal Fund for the two financial years ended 31 December 2020 and 2021 prepared in accordance with IFRSs:

	For the year ended 31 December 2020 *RMB billion*	**For the year ended 31 December 2021** ***RMB billion***
Net profit before tax	2.17	**3.35**
Net profit after tax	1.65	**2.56**

Ruiyuan No.76 Debt

The Ruiyuan No.76 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.76 Trust Scheme, which is a trust scheme established in February 2018. The Company is the trustee of the Ruiyuan No.76 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 RMB20 million) is approximately RMB2,586.07 million. The assets pledged or mortgaged under the Ruiyuan Trust Loans (the "**Collaterals**") consist of: (a) land-use rights of a plot of land (approximately 72,297.6 square metres) located in Suzhou, the PRC; (b) land-use rights of a plot of land (approximately 68,609 square metres) located in Suzhou, the PRC; (c) housing properties (with a total gross floor area of approximately 8,419.77 square metres) on and land-use rights of a plot of land (approximately 80,313.57 square metres) located in Beijing, the PRC; (d) a plot of land and the construction work in progress (with a total gross floor area of approximately 1,471.94 square metres) thereon located in Beijing, the PRC (together, the "**Property Collaterals**"); and (e) 100% equity interests in two companies controlled by the borrower which are principally engaged in organising cultural and sports events and operating stadiums and football clubs (major assets of such companies include fixed assets, intangible assets (being players and franchise of a football club in the PRC) and long-term equity investments (including a subsidiary holding franchise of a stadium located in the PRC which is currently under renovation)) (the "**Equity Collaterals**").

Since the borrower defaulted in payment of the interest and principal of the Ruiyuan Trust Loans in December 2019 and February 2021, respectively, the Ruiyuan No.76 Debt has become non-performing assets of the Company. Since the Property Collaterals were mortgaged for other trust loans which should take priority over the Ruiyuan Trust Loans, and the aggregated appraised value of the collaterals under such trust loans (including the Property Collaterals) was less than their outstanding principal amounts and accrued interest of approximately RMB8,424.4 million, the Property Collaterals are regarded as not having any recoverable value. The appraised value of the Equity Collaterals for the purpose of going through the Public Tender Procedures is approximately RMB2,531.6 million. While the Consideration of Debt Transfer is lower than the appraised value of the Equity 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 Disposal", the Company considered that it is not in the best interests of the Company or the Shareholders to recover the Ruiyuan No.76 Debt through directly enforcing the Equity Collaterals at the appraised value.

V. CONSIDERATION OF THE DISPOSAL

The Consideration of Equity Transfer is the outcome of the Public Tender Procedures which represented the highest bidding price offered during the Publication Period for the Equity Interest in Fullgoal Fund. According to the Valuation Report which was prepared using a market approach, the appraised value of Equity Interest in Fullgoal Fund as at 30 November 2021 was approximately RMB4,038.8 million. The book value of the Equity Interest in Fullgoal Fund as at 31 December 2021 was approximately RMB1,174.6 million. The Consideration of Equity Transfer conforms with the appraised value as stated above.

Since no bidders indicated any interest in the Ruiyuan No.76 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 RMB1,000 million for the Ruiyuan No.76 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.76 Debt. As at the end of 2021, the Company made provision for impairment losses of approximately RMB462 million in connection with the Ruiyuan Trust Loans and the Ruiyuan No.76 Debt has become non-performing assets of the Company. The carrying amount of the Ruiyuan No.76 Debt as at 31 December 2021 was approximately RMB1,687.5 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.76 Debt in April 2022. The quotations that the Company obtained from those asset management companies for the Ruiyuan No.76 Debt ranged from RMB0.9 billion to RMB1.0 billion. 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.76 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 Consideration of Debt Transfer conforms with the market expectation as stated above.

VI. USE OF PROCEEDS

The gross proceeds from the Disposal are expected to be RMB5,038.8 million and the net proceeds (after deduction of related transaction expenses) are expected to be RMB5,034.9 million. The Company intends to apply the net proceeds from the Disposal in the following manner:

Replenishing working capital and optimising the financial and regulatory indicators

Approximately RMB4,800 million 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 RMB2,305.3 million as at 31 December 2021. The Company intends to apply:

– approximately RMB1,000 million for the investment in the Company's self-issued trust products to support the active transformation of its trust business to capital market business following the regulatory guidance, with an estimated investment yield of 3% to 8% based on historical performance;

– approximately RMB2,800 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.

Investing in information technology and human resources

Approximately RMB200 million will be applied to enhance the establishment of a team of talents in the financial industry, improving its service model and optimising its information technology system and human resources. In the coming two years, the Company plans to improve its information technology system architecture (such as "SITC APP" and "Family Wallet") and complete the construction of a standard asset management product system, asset securitisation system and family trust system. The Company also plans to strengthen the talent team establishment in the financial industry (including professionals supporting the family trust, standard trust, and service trust business development) and set up new offices for wealth management, family trust, and capital market business departments. In addition, the Company will relocate to new office premises soon, which requires the construction of new server rooms, data centre and acquisition of servers.

VII. REASONS FOR AND BENEFITS OF THE DISPOSAL

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 business, family trust, service trust and other businesses that serve the development of the real economy and satisfy people's demands for a better life. 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 and increase its investment in information technology and human resources so as to support its business transformation and development, and such development plan would require funding of approximately RMB5,000 million based on the recent estimation. 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. After assessing the value of its assets on hand that were readily available for disposal and taking into account its funding needs, the Company identified the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt as suitable assets for disposal.

Since the Disposal would incur transaction costs on the Company, including but not limited to the costs for initiating public tender procedures, engaging advisers and independent valuers and other expenses for approving the Disposal in accordance with the relevant requirements under the Listing Rules, the Company believes that it is more cost-efficient to conduct the disposal of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt in one go and simplify the process of the Disposal by negotiating with one counterparty on the terms and conditions, so as to save time and costs in achieving its funding needs. Although the Transfer Agreements were structured as inter-conditional and entered into with the same party (i.e. the Purchaser), the disposal of Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt were conducted through separate Public Tender Procedures with their initial listed prices determined separately with reference to their appraised value and resolved in two separate agreements. If the Disposal was not structured as inter-conditional and the Public Tender Procedures for the Ruiyuan No.76 Debt failed for this time, the Company will need to relaunch the disposal of Ruiyuan No.76 Debt which will take at least six months for the Company to go through its internal decision-making process to relaunch the disposal procedures given it is a state-owned enterprise and to obtain the Shareholders' approval in accordance with the Listing Rules requirements. Besides, the Company would incur extra expenses for engaging professional parties for the transaction of approximately RMB4 million to RMB5 million. Therefore, the Transfer Agreements were structured as inter-conditional, and the Company believes that such arrangement is fair and reasonable, and in the interest of the Company and Shareholders as a whole.

Although the share of results of the Equity Interest in Fullgoal Fund has contributed significant profits to the Group during the past two financial years, the disposal of the Equity Interest in Fullgoal Fund will help the Company to obtain high investment returns in Fullgoal Fund (which conforms with the appraised value of the Equity Interest in Fullgoal Fund prepared by the Independent Valuer) and improve the liquidity of its capital and risk resistance.

The Ruiyuan No.76 Debt has become non-performing assets of the Company, and provision for impairment losses of approximately RMB462 million has been made in connection with the Ruiyuan Trust Loans for the year ended 31 December 2021. The Company is of the view that even the Consideration of Debt Transfer is lower than the carrying amount of the Ruiyuan No.76 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 franchise of a football club and a stadium and are heavily impacted by the Chinese football industry. The Chinese Male Football Association Super League (the "**Chinese Super League**") has been facing financial issues which hit most clubs. The grinding impact of the COVID-19 pandemic, coupled with increasing difficulties within the business sector that bankrolled the Chinese Super League clubs, has adversely affected the tournament arrangements of the Chinese Super League. Many Chinese Super League clubs have encountered great marketing and commercial operations difficulties, especially since April 2022. Their commercial value, brand image and marketing operations have suffered great damage and experienced a significant decrease in operating income. The stadium operation has also been under severe challenge due to the uncertainty of the domestic football clubs' operating environment and the strict control on mass group activities imposed by the government authorities in connection with the COVID-19 pandemic. There are foreseeable worsen-offs in terms of rental income, ticket income and commercial operations of a stadium when the postponement (or even cancellation) of the 19th Asian Games, the 2022 Asian Youth Games and the 31st Summer Universiade was recently announced.

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.76 Debt in April 2022. The quotations that the Company obtained from those asset management companies for the Ruiyuan No.76 Debt ranged from RMB0.9 billion to RMB1.0 billion, which, the Company believes, reflects the expectation of the market on the value of the Ruiyuan No.76 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. Since the Property Collaterals are regarded as not having any recoverable value, and the value of Equity Collaterals are heavily impacted by the Chinese football industry together with the grinding impact of the COVID-19 pandemic, 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.76 Debt and mitigate the risks arising since it became the Company's non-performing asset. Since 2021, the Company has tried to identify potential third parties interested in the Ruiyuan No.76 Debt or the Collaterals and discussed with over five potential purchasers who were third parties, but did not make any progress. The Property Collaterals are regarded as not having any recoverable value as mentioned above. Therefore, the Company can only enforce the Equity Collaterals by taking possession of the Equity Collaterals itself or disposal to third parties through judicial auctions. Such actions involve complex legal procedures and potential time costs and expenses. It is not practicable for the Company to take possession of the Equity Collaterals as it is never the intention for the Company to manage and operate a football club or a stadium in the PRC which requires specific expertise.

Indeed, the Company has completed its internal approval procedures to initiate legal actions against the Equity Collaterals under the Ruiyuan No.76 Debt and take appropriate judicial measures such as asset preservation. However, the Company decided not to proceed after considering the relevant legal expenses of over RMB60 million and timing for obtaining a favourable order and completing the enforcement (which may take at least three to five years). The possibility of disposing of the Equity Collaterals (even at an acceptable price) remains uncertain because since April 2022 the Chinese football industry has been facing financial difficulties together with the further impact of the COVID-19 pandemic as disclosed above in page 14. 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.76 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.76 Debt will help the Company to properly solve the remaining issues of the Ruiyuan No.76 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.76 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.76 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 Disposal is in the Company's ordinary and usual course of business, the Equity Transfer, the Debt Transfer, and the terms of each of the Transfer Agreements are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

VIII. FINANCIAL EFFECT ARISING FROM THE DISPOSAL

Fullgoal Fund is an associate company of the Group and the results and assets and liabilities of Fullgoal Fund have been accounted for in the financial statements of the Group under equity method of accounting. The Company is expected to record an increase in liabilities of approximately RMB1,003.8 million, an increase in assets of approximately RMB2,861.0 million, and a gain of approximately RMB2,858.0 million before income tax, or approximately RMB1,854.2 million after income tax, if the Equity Transfer is materialised, which is estimated based on (a) the Consideration of Equity Transfer of RMB4,038.8 million less (b) the sum of the carrying amount of the Equity Interest in Fullgoal Fund as at 31 December 2021 of approximately RMB1,174.6 million, release of accumulated other reserve as at 31 December 2021 of approximately RMB3.0 million, and the relevant transaction expenditures and taxation of approximately RMB3.2 million. Upon the Completion of the Equity Transfer, Fullgoal Fund will cease to be an associate company of the Group.

The Ruiyuan No.76 Trust Scheme was not consolidated into the financial statements of the Company. The Company accounted the Ruiyuan No.76 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 RMB1,687.5 million (before income tax), the assets of the Company is expected to decrease by RMB803.8 million, and the Company is expected to recognise a corresponding loss of RMB688.2 million, which is estimated based on (a) the Consideration of Debt Transfer of RMB1,000.0 million less (b) the sum of the carrying amount of the Ruiyuan No.76 Debt as at 31 December 2021 of approximately RMB1,687.5 million and the relevant transaction expenditures and taxation of approximately RMB0.7 million.

IX. LISTING RULES IMPLICATIONS

The transfers of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt constitute notifiable transactions 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 holding approximately 48.13% of the total issued shares of the Company (i.e. 2,242,202,580 Domestic Shares), the Purchaser is therefore a connected person of the Company under the Listing Rules. Thus, each of the Transfer Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

According to the Public Tender Procedures and bidding conditions, the Purchaser shall acquire both of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt. Since the Transfer Agreements are both entered into with the Purchaser and inter-conditional, and the Equity Transfer and the Debt Transfer will take place within the same 12-month period, the Company shall aggregate the Transfer Agreements and treat them as one transaction in accordance with Rules 14.22 and 14A.81 of the Listing Rules. Since one or more of the applicable percentage ratio(s) (on an aggregated basis) (as defined under the Listing Rules) in respect of the Transfer Agreements and the transactions contemplated thereunder exceed 75%, the Disposal constitutes a very substantial disposal and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively, and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

Since the Transfer Agreements are related and premised on each other, and the completions of the Debt Transfer and the Equity Transfer are inter-conditional, entering into the Transfer Agreements will be consolidated into one resolution and submitted to the EGM for consideration and approval.

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 Agreements. However, Mr. Wan Zhong (an executive Director) and Mr. Zhao Zikun (a non-executive Director), have voluntarily abstained from voting on the relevant resolutions approving the Transfer Agreements 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 Disposal, Lucion Group, CNPC Assets Management and Jinan Finance Holding and their associates (if applicable) are required to abstain from voting on the resolution to approve the Transfer Agreements at the EGM. Save as disclosed above, there are no other Shareholders who have material interest in the Transfer Agreements or have to abstain from voting on the resolution to approve the Transfer Agreements at the EGM.

X. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed by the Company to consider, and to advise the Independent Shareholders of the Company on the terms of the Transfer Agreements. The Company has appointed Gram Capital to make recommendations to the Independent Board Committee and the Independent Shareholders of the Company on the terms of the Transfer Agreements. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the Transfer Agreements.

Having considered the factors mentioned above and the fact that the transactions contemplated under the Transfer Agreements will be conducted in the ordinary and usual course of business and on normal commercial terms, the independent non-executive Directors are of the view that the terms of the Transfer Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

XI. 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 the Transfer Agreements are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole. A letter form Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 38 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 Agreements.

XII. EGM

The EGM will be held at Room 1204, Lucion Building, No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC on Friday, 15 July 2022 at 10:00 a.m.. A notice convening the EGM is set out on pages 161 to 163 of this circular.

The holders of H Shares and Domestic Shares whose names appear on the registers of the members of the Company on Friday, 15 July 2022 are entitled to attend and vote at the EGM. The registers of members of the Company will be closed from Tuesday, 12 July 2022 to Friday, 15 July 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 Company's registered office at No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC (for holders of Domestic Shares) not later than 4:30 p.m. on Monday, 11 July 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 10:00 a.m. on Thursday, 14 July 2022). Completion, signing and return of the proxy form will not preclude you from attending and voting in person at the EGM.

XIII. 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 resolution at the EGM will be voted by way of poll. The Chairperson of the EGM shall therefore demand voting on the resolution 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.

XIV. RECOMMENDATION

The Board of Directors believes that the resolution to be proposed at the EGM for consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board of Directors recommends that all Shareholders vote in favour of the resolution 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 Agreements.

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)

30 June 2022

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 30 June 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 Agreements, and to give recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the Transfer Agreements are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and whether the Transfer Agreements are 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 Agreements.

We wish to draw your attention to the letter from the Board of Directors set out in the section of Letter from the Board of Directors in the Circular which contains, among other things, information about the Transfer Agreements, 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 Agreements, and the information set out in the appendices thereto.

Having considered the terms of the Transfer Agreements and having taken into account the advice from Gram Capital as stated in its letter, we consider that the Disposal is in the Group's ordinary and usual course of business, and the terms of the Transfer Agreements 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 Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Yen Huai-chiang	**Mr. Ding Huiping**	**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 Disposal 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

30 June 2022

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

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS

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 Disposal, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 30 June 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 23 May 2022 (the "**Agreements Date**"), the Company entered into the Transfer Agreements with the Purchaser (as amended by the supplemental agreements dated 25 May 2022), pursuant to which the Company conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Equity Interest in Fullgoal Fund and the Ruiyuan No. 76 Debt at consideration of RMB4,038,817,800 and RMB1,000,000,000 respectively.

With reference to the Board Letter, the Disposal constitutes very substantial disposal and connected transactions 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. Ding Huiping, Ms. Meng Rujing (being all independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Disposal are on normal commercial terms and are fair and reasonable; (ii) whether the Disposal 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 Disposal 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

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence 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 Disposal. 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.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Group and we were furnished with the Valuation Report regarding the Equity Interest in Fullgoal Fund prepared by the Independent Valuer as set out in Appendix I to the Circular. Since we are not experts in the valuation of assets or business, we have relied solely upon the Valuation Report for valuation of the Equity Interest in Fullgoal Fund as at 30 November 2021 (the "**Reference Date**").

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 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 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 Disposal. 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 Disposal, we have taken into consideration the following principal factors and reasons:

Background of the Disposal

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. The Company is principally engaged in the provision of comprehensive financial service and wealth management service.

With reference to the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual 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 audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the 2021 Annual Report:

	For the year ended 31 December 2021 *RMB'000*	**For the year ended 31 December 2020** *RMB'000*	**Year-on-year change** *%*
Total operating income	1,778,696	2,305,630	(22.85)
– *Trust business*	830,812	1,155,078	(28.07)
– *Proprietary business*	947,884	1,150,552	(17.61)
Net profit attributable to Shareholders	468,519	627,818	(25.37)

	As at 31 December 2021 *RMB'000*	**As at 31 December 2020** *RMB'000*	**Year-on-year change** *%*
Net current liabilities	(2,305,271)	(2,804,063)	(17.79)
Total equity	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 total operating income from FY2020 to FY2021, as partially offset by decrease in 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 the decrease in net profit attributable to Shareholders for FY2021 as compared to that for FY2020.

With reference to the 2021 Annual Report, the Group's current liabilities exceeded its current assets by approximately RMB2,305 million as at 31 December 2021. In addition, the Group's capital commitments contracted but not provided were approximately RMB3 million as at 31 December 2021. These conditions may cast significant doubt regarding the Group's ability to continue as a going concern.

With reference to the 2021 Annual Report, guided by the "14th Five-Year Plan", the Company will firmly transform under the guidance of supervision, actively grasp the new opportunities of capital market development, optimise and improve the traditional business model, make every effort to build an "allocation-oriented" wealth management system, accelerate the promotion of differentiated asset management capabilities, continuously expand the practice of green trust business, actively promote common prosperity, provide high-quality financial services for the development of the real economy and the better life of the people, and become a respected professional wealth management institution 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 non-performing asset, asset management and provision of comprehensive financial services. Since the Purchaser is a non-wholly owned subsidiary of Lucion Group, being the controlling shareholder of the Company, the Purchaser is therefore a connected person of the Company under the Listing Rules.

Information on Fullgoal Fund

With reference to the Board Letter, Fullgoal Fund is a limited liability company established in the PRC on 13 April 1999 which is principally engaged in the formation of fund and fund management.

Set out below are the key consolidated financial information of Fullgoal Fund for the two years ended 31 December 2021 as extracted from the Board Letter:

	For the year ended 31 December 2021 *RMB billion*	**For the year ended 31 December 2020** *RMB billion*
Net profit before tax	3.35	2.17
Net profit after tax	2.56	1.65

Information on Ruiyuan No.76 Debt

With reference to the Board Letter, Ruiyuan No.76 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.76 Trust Scheme, which is a trust scheme established in February 2018. The Company is the trustee of the Ruiyuan No.76 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 RMB20 million) was approximately RMB2,586.07 million (the "**Principal & Interest**") as at 31 December 2021. The assets pledged or mortgaged under the Ruiyuan Trust Loans (i.e. the Collaterals) consist of: (i) the Property Collaterals which include (a) land-use rights of a plot of land located in Suzhou, the PRC; (b) land-use rights of a plot of land located in Suzhou, the PRC; (c) housing properties on and land-use rights of a plot of land located in Beijing, the PRC; and (d) a plot of land and the construction work in progress thereon located in Beijing, the PRC; and (ii) the Equity Collaterals which include 100% equity interests in two companies controlled by the borrower (major assets of such companies include fixed assets, intangible assets (being players and franchise of a football club in the PRC) and long-term equity investments (including a subsidiary holding franchise of a stadium located in the PRC which is currently under renovation).

Reasons for and benefits of the Disposal

With reference to the Board Letter, 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 these 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. The Company planned to devote more financial resources in its proprietary business and increase its investment in information technology and human resources so as to support its business transformation and development, and such development plan would require funding of approximately RMB5,000 million based on the recent estimation. 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. After assessing the value of its assets on hand that were readily available for disposal and taking into account its funding needs, the Company identified the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt as suitable assets for disposal. Since the Disposal would incur transaction costs on the Company, including but not limited to the costs for initiating public tender procedures, engaging advisers and independent valuers and other expenses for approving the Disposal in accordance with the relevant requirements under the Listing Rules, the Company believes that it is more cost-efficient to conduct the disposal of the Equity Interest in Fullgoal Fund and the Ruiyuan No.76 Debt in one go and simplify the process of the Disposal by negotiating with one counterparty on the terms and conditions, so as to save time and costs in achieving its funding needs.

With reference to the Board Letter, and based on the estimated procedures and costs provided by the Company, if the Disposal was not structured as inter-conditional and the Public Tender Procedures for the Ruiyuan No.76 Debt failed for this time, the Company will need to relaunch the disposal of Ruiyuan No.76 Debt. It will take at least six months for the Company to go through its internal decision-making process to relaunch the disposal procedures and to obtain the Shareholders' approval in accordance with the Listing Rules requirements. Besides, the Company would incur extra expenses of approximately RMB4 million to RMB5 million for engaging professional parties for the separated disposal transaction.

Therefore, the Transfer Agreements were structured as inter-conditional, and we concur with the Company's view that such arrangement is fair and reasonable, and in the interest of the Company and Shareholders as a whole.

As aforementioned, the Group's current liabilities exceeded its current assets by approximately RMB2,305 million as at 31 December 2021. In addition, the Group's capital commitments contracted but not provided were approximately RMB3 million as at 31 December 2021. These conditions may cast significant doubt regarding the Group's ability to continue as a going concern.

According to the unaudited pro forma financial information of the Remaining Group (the "**Pro Forma FI**") as contained in Appendix IV to the Circular, the Remaining Group would record net current assets position as at 31 December 2021 had the Disposal been completed on 31 December 2021.

With reference to the Board Letter, the Company is expected to recognise (i) gain after income tax of approximately RMB1,854.2 million from the Equity Transfer; and (ii) loss of RMB688.2 million from the Debt Transfer.

Equity Transfer

With reference to the Board Letter, although the share of results of the Equity Interest in Fullgoal Fund has contributed significant profits to the Group during the past two financial years, the disposal of the Equity Interest in Fullgoal Fund will help the Company to obtain high investment returns in Fullgoal Fund and improve liquidity of its capital and risk resistance.

Debt Transfer

With reference to the Board Letter, Ruiyuan No.76 Debt has become non-performing assets of the Company, and provision for impairment losses of approximately RMB462 million was made in connection with the Ruiyuan Trust Loans for FY2021. The Company is of the view that even the Consideration of Debt Transfer is lower than the carrying amount of the Ruiyuan No.76 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.

We noticed that the Consideration of Debt Transfer of RMB1,000 million is lower than (i) Principal & Interest of approximately RMB2,586.07 million as at 31 December 2021; and (ii) the carrying amount of the Ruiyuan No.76 Debt of approximately RMB1,687.5 million as at 31 December 2021. According to the Board Letter, since the Property Collaterals were mortgaged for other trust loans which should take priority over the Ruiyuan Trust Loans, they are regarded as not having any recoverable value. The appraised value of the Equity Collaterals for the purpose of going through the Public Tender Procedures was approximately RMB2,531.6 million as at 31 December 2021.

In light of the above, we discussed with the Company regarding the feasibility of enforcing the Collaterals. Based on our discussion with and information provided by the Company:

(i) The Property Collaterals were mortgaged for other trust loans ("**Other Loans**") which shall take priority over the Ruiyuan Trust Loans. The Other Loans were also provided by the Company and default as at the Agreements Date. As at 31 December 2021, the aggregated appraised value of the collaterals (including the Property Collaterals) under the Other Loans was less than the outstanding principal amounts and interest of the Other Loans in aggregate. Accordingly, it is believed that the Property Collaterals would not have any recoverable value for Ruiyuan No. 76 Debt.

(ii) The Company can enforce the Equity Collaterals by taking possession of the Equity Collaterals itself or disposal to third parties through judicial auctions. Such actions involve complex legal procedures and potential time costs and expenses.

(iii) It is not practicable for the Company to take possession of the Equity Collaterals as it was never the intention of the Company to manage and operate a football club or a stadium in the PRC which requires specific expertise.

(iv) Although the appraised value of the Equity Collaterals for the purpose of going through the Public Tender Procedures was approximately RMB2,531.6 million as at 31 December 2021, such value does not represent the consideration which potential buyer would pay for acquiring the Equity Collaterals. 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.76 Debt. The quotations that the Company obtained from those asset management companies for the Ruiyuan No.76 Debt ranged from RMB0.9 billion to RMB1.0 billion.

(v) The Company decided not to proceed with legal actions against the Equity Collaterals after considering the legal cost and timing for obtaining a favourable order and completing the enforcement (which may take at least three to five years). The possibility of disposing the Equity Collaterals (even at an acceptable price) remains uncertain because the PRC football industry has been facing financial difficulties together with the further impact of the COVID-19 pandemic.

(vi) According to the legal opinion from the Company's PRC legal adviser: (a) upon obtaining favourable court order through legal proceedings, the Company can enforce the Equity Collaterals by taking possession of the Equity Collaterals itself or disposal to third parties through judicial auctions. Nevertheless, as the Property Collaterals were mortgaged for other loans which shall take priority over the Ruiyuan Trust Loans, should there be no enforceable value left with the Property Collaterals after the same being applied to satisfy the claims under those loans, the Company could not be compensated (in respect of the claims under the Ruiyuan Trust Loans) through enforcement of the Property Collaterals; (b) the Company may take one to two years for obtaining final order from court and three to five years to enforce/auction off the Collaterals thereafter; (c) relevant expenses (including litigation fee, insurance fee, legal expenses, etc.) for legal proceedings would be over RMB60 million, regardless of the results of legal proceedings.

(vii) Given the above, 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 Trust Loans.

Taking into account the above, 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.

Use of proceeds

With reference to the Board Letter, the gross proceeds from the Disposal are expected to be RMB5,038.8 million and the net proceeds (after deduction of related transaction expenses) are expected to be RMB5,034.9 million. The Company intends to apply the net proceeds from the Disposal in the manner set out under the section headed "VI. USE OF PROCEEDS" of the Board Letter.

Approximately RMB4,800 million will be applied to replenish the Company's working capital and optimise the financial and regulatory indicators applicable to the Company, among which:

(i) approximately RMB1,000 million for the investment in the Company's self-issued trust products;

(ii) approximately RMB2,800 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 to the Company.

Approximately RMB200 million will be applied to enhance the establishment of a team of talents in the financial industry, improving its service model and optimising its information technology system and human resources.

The above uses of proceeds from the Disposal can improve the Group's financial position and facilitate the Group's business development.

Having considered the above, we consider that the Disposal 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 Disposal

Set out below is the principal terms of the Disposal under the Transfer Agreements, details of which are set out under the section headed "III. THE TRANSFER AGREEMENTS" of the Board Letter.

	Equity Transfer Agreement	**Debt Transfer Agreement**
Date:	23 May 2022 and amended on 25 May 2022	23 May 2022 and amended on 25 May 2022
Parties:	(i) The Company; and (ii) the Purchaser	(i) The Company; and (ii) the Purchaser
Disposal:	Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest in Fullgoal Fund, being 16.675% equity interest in Fullgoal Fund, representing the Company's entire interest in Fullgoal Fund.	Pursuant to the Debt Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Ruiyuan No.76 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.76 Trust Scheme.
Consideration and payment terms:	The Consideration of Equity Transfer payable by the Purchaser for the Equity Interest in Fullgoal Fund is RMB4,038,817,800. Pursuant to the Equity Transfer Agreement, the Consideration of Equity Transfer shall be payable by the Purchaser to the Company in cash according to the schedule as set out in the section headed "III. THE TRANSFER AGREEMENTS" of the Board Letter.	The Consideration of Debt Transfer payable by the Purchaser for the Ruiyuan No.76 Debt is RMB1,000,000,000. Pursuant to the Debt Transfer Agreement, the Consideration of Debt Transfer shall be payable by the Purchaser to the Company in cash according to the schedule as set out in the section headed "III. THE TRANSFER AGREEMENTS" of the Board Letter.

	If the Equity Transfer Agreement is terminated automatically or due to reasons on the part of the Company, the Company shall return to the Purchaser the initial deposit and installments paid by the Purchaser and any costs of fund occupation accrued thereon within five business days after the termination. 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.	If the Debt Transfer Agreement is terminated automatically or due to reasons on the part of the Company, the Company shall return to the Purchaser all the consideration (i.e. RMB1 billion) paid by the Purchaser and any costs of fund occupation accrued thereon within five business days after the termination. 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.
Conditions precedent and completion:	The date of Completion of the Equity Transfer shall be the date that the Purchaser paid the remaining consideration, and such date shall be no later than 31 March 2023. The Completion of the Equity Transfer is conditional upon the satisfaction of the conditions as set out in the section headed "III. THE TRANSFER AGREEMENTS" of the Board Letter.	The date of Completion of the Debt Transfer shall be the same with the date of Completion of the Equity Transfer. The Completion of the Debt Transfer is conditional upon the satisfaction of the conditions as set out in the section headed "III. THE TRANSFER AGREEMENTS" of the Board Letter.
	During the transition period (being the period from 30 November 2021 to the date of Completion of the Equity Transfer), if Fullgoal Fund declares and pays any dividend or profit distribution (including but not limited to the dividend or profit distribution for the year 2021) and the Company receives the dividend or profit distribution payment, the Company shall transfer the said amount to the account designated by the Purchaser. If the Completion of the Equity Transfer does not take place, the Company is still the shareholder of Fullgoal Fund which shall be entitled to such dividend or profit distribution.	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.76 Debt. The sum recovered under the Ruiyuan No.76 Debt, after deducting the costs and expenses incurred by the Company for such management and maintenance, shall belong to the Purchaser, if any.

Equity Transfer Consideration

With reference to the Board Letter, the Consideration of Equity Transfer of RMB4,038,817,800 is the outcome of the Public Tender Procedures which represented the highest bidding price offered during the Publication Period for the Equity Interest in Fullgoal Fund. According to the Valuation Report which was prepared using a market approach, the appraised value of the Equity Interest in Fullgoal Fund as at 30 November 2021 was approximately RMB4,038.8 million (the "**Equity Valuation**").

To assess the fairness and reasonableness of the Consideration of Equity Transfer, we obtained the Valuation Report prepared by the Independent Valuer from the Company and noted that the Equity Valuation equals to the Consideration of Equity Transfer.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Independent Valuer as well as their qualification and experience for preparation of the Valuation Report. The Independent Valuer also confirmed that they are independent to the Group, the Purchaser and Fullgoal Fund.

The Valuation Report was prepared by the Independent Valuer and concluded by adopting market approach. As confirmed by the Independent Valuer, the Independent Valuer had considered the three basic asset valuation methods, namely, the income approach, the market approach and the asset-based approach. With reference to the Valuation Report:

(i) Asset-based approach for valuation of an enterprise refers to the valuation method whereby value of the appraised target is determined by reasonable valuation of identifiable on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the appraised entity on the Reference Date. As the assets-based method reflects an enterprise's value by putting business acquisition and construction into perspective, and it is rather difficult for this method to reflect the value of fund company's license, therefore the assets-based method was not used for Equity Valuation.

(ii) Income approach for valuation of an enterprise refers to the valuation method whereby value of the appraised target is determined by capitalising or discounting projected income. Professional asset valuers shall appropriately take into consideration suitability of income approach in reference to the business nature, asset size, historical operations, future profit forecast, and adequacy of information collected for assessment. As Fullgoal Fund qualifies for the basis and requirements of continuance, while future profit and risks are predictable and quantifiable, and therefore the income approach could be used for the Equity Valuation.

(iii) Market approach for the valuation of an enterprise refers to the valuation method whereby value of the appraised target is determined by comparing the appraised target with comparable listed companies or comparable transaction cases. The professional asset valuers shall take into consideration suitability of the market approach with reference to adequacy and reliability of business operations and financial data, and comparable enterprises to be collated.

(iv) In the income approach, the fund scale of a fund company is closely related to the country's macroeconomic environment, and is heavily influenced by the PRC monetary policy and regulatory policies in fund sector. As PRC current macro economy is in the face of the complicated domestic and international environment, income projection assumptions are subject to many constraints, resulting in a high degree of uncertainty regarding the income. The market approach data is more directly taken from the market, and it can also reflect the market valuation of company by investors in a more timely and better manner when changes occur in the market. Consequently, the valuation results of the market approach are relatively reliable, and the valuation result of the market approach was taken as the final valuation conclusion for the Equity Valuation.

We also noted from the Valuation Report that the Equity Valuation under market approach was approximately 2.52% higher than the valuation result under income approach.

Having considered that (i) the Valuation Report was prepared by the Independent Valuer by adopting both market approach and income approach, and concluded by market approach; (ii) the aforementioned basis for valuation methodology selection; and (iii) the Equity Valuation under market approach was approximately 2.52% higher than the valuation result under income approach, we concur with the Independent Valuer's selection on valuation methodology and we did not consider other approaches to assess the Equity Valuation.

We further reviewed and enquired into the Independent Valuer on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. We also discussed the key assumptions and parameters under the Valuation Report. During our discussion with the Independent Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

We noted from the Valuation Report that, in preparing the Equity Valuation under market approach, the Independent Valuer selected comparable transactions which were involved in the disposal, acquisition, merger of, and capital injection into companies engaging in similar line of business as the Fullgoal Fund (i.e. engaged in fund formation and management) and were completed during the period from 2016 to 2020. Having identified the comparable transactions, the Independent Valuer applied an adjustment ratio to the transaction price of each comparable transaction based on the difference in, among others, (i) the valuation reference date; (ii) the subject company's total assets; (iii) the number of fund managers and average length of employment, among the comparable transactions and the Equity Transfer. We consider the aforesaid adjustments to be justifiable as they cover differences in size, operation scale and timing of the comparable transactions as compared with the Equity Transfer.

The Independent Valuer applied the price over asset under management ratio for the purpose of arriving at the Equity Valuation. We understood from the Independent Valuer that the Independent Valuer considered and rejected the use of price to earnings ratio and price to book ratio since (i) price to earning ratio can be easily affected by the capital structure of the subject company and often requires the adjustment for non-recurring expenses and the effect of accounting policies; and (ii) price to book ratio reflects the investment scale of the subject company, which is more suitable for companies with substantial amount of assets. We also understood from the Independent Valuer that price over asset under management ratio reflects the scale of its asset under management in relation to its price, and it is often used for the valuation of asset management firms. Given the above, we consider the application of price over asset under management ratio to be justifiable.

Having considered our independent work performed on the Valuation Report and that the Consideration of Equity Transfer equals to the Equity Valuation, we are of the view that the Consideration of Equity Transfer is fair and reasonable.

Debt Transfer Consideration

With reference to the Board Letter, the appraised value of the Equity Collaterals for the purpose of going through the Public Tender Procedures was approximately RMB2,531.6 million as at 31 December 2021. Since no bidders indicated any interest in the Ruiyuan No.76 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 RMB1,000 million for the Ruiyuan No.76 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.76 Debt.

Upon our enquiry, the Directors advised us that:

(i) The Company initiated the Public Tender Procedures for the transfer of the Ruiyuan No. 76 Debt at the listed price of approximately RMB2,531.6 million.

(ii) Since no bidders indicated any interest in the Ruiyuan No.76 Debt during the designated period after the commencement of the Publication Period, the Company adjusted the listed price to RMB1,000 million in accordance with the Public Tender Procedures. The adjusted listed price conforms with the quotations (ranged from RMB900 million to RMB1,000 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.76 Debt.

(iii) the Purchaser is the only participant under the Public Tender Procedures and quoted RMB1,000 million for the Ruiyuan No.76 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.76 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.

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 January 2019 to the Agreements 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 & 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 10 transactions with transaction prices of over RMB1 billion (the "**Reviewed Transactions Over RMB1 billion**"); and (iii) the discount of the transaction price to the listed price of the Reviewed Transactions Over RMB1 billion ranged from approximately 5.35% to 89.54%, with average discount of approximately 46.00%. Although the discount of approximately 60.50% as represented by the Consideration of Debt Transfer of RMB1,000 million to the initial listed price of approximately RMB2,531.6 million under the Public Tender Procedures is deeper than the average of the aforesaid discounts, it is within the aforesaid discounts range.

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 Agreements Date. We noted that there were 16 non-performing debts disposed under the list, with considerations represented discounts of nil to approximately 99.60% (average discount of approximately 52.54%). Although the discount of approximately 61.33% as represented by the Consideration of Debt Transfer of RMB1,000 million to the Principal & Interest of approximately RMB2,586.07 million is deeper than the average of the aforesaid discounts, it is within the aforesaid discounts range.

Discount of final transaction price to initial listed price/outstanding aggregated principal and interest amount of non-performing debt is subject various factors such as buyer's expectation on debt recoverability and quality of collaterals. Accordingly, the fact that the discounts as represented by the Consideration of Debt Transfer to its initial listed price/the Principal & Interest are deeper than the comparable average discounts as stated above does not imply that the Consideration of Debt Transfer is exceptional or abnormal.

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

Transitional arrangements

As aforementioned, during the transition period (being the period from 30 November 2021 to the date of Completion of the Equity Transfer), if Fullgoal Fund declares and pays any dividend or profit distribution (including but not limited to the dividend or profit distribution for the year 2021) and the Company receives the dividend or profit distribution payment, the Company shall transfer the said amount to the account designated by the Purchaser. If the Completion of the Equity Transfer does not take place, the Company is still the shareholder of Fullgoal Fund which shall be entitled to such dividend or profit distribution.

With reference to the Board Letter, since the Valuation Report was prepared based on the assets, financial and operation conditions of Fullgoal Fund as at 30 November 2021, any change to such conditions subsequent to 30 November 2021, such as dividend or profit distribution, would lead to adjustment of the Consideration of Equity Transfer.

As aforementioned, 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.76 Debt. The sum recovered under the Ruiyuan No.76 Debt, after deducting the costs and expenses incurred by the Company for such management and maintenance, shall belong to the Purchaser, if any.

With reference to the Board Letter, since the appraisal date for the purpose of going through the Public Tender Procedures for the Ruiyuan No.76 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.

Having considered the reasons for the aforesaid transitional arrangements, we are of the view that the aforesaid transitional arrangements are fair and reasonable.

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

Possible financial effects of the Disposal

With reference to the Board Letter, (i) Fullgoal Fund is an associate company of the Group and the results and assets and liabilities of Fullgoal Fund have been accounted for in the financial statements of the Group under equity method of accounting. Upon Completion of the Equity Transfer, Fullgoal Fund will cease to be an associate company of the Group; and (ii) Ruiyuan No.76 Trust Scheme was not consolidated into the financial statement of the Group, the Ruiyuan No.76 Debt was accounted for as “loans to customers” in the Group’s financial statements. Upon Completion of the Debt Transfer, the assets of the Group is expected to decrease and a corresponding loss is expected to be recognised.

With reference to the Board Letter, the Company is expected to recognise (i) gain after income tax of approximately RMB1,854.2 million from the Equity Transfer; and (ii) loss of RMB688.2 million from the Debt Transfer.

As extracted from the 2021 Annual Report, the audited consolidated total assets and total liabilities of the Group were approximately RMB19.06 billion and RMB8.41 billion as at 31 December 2021 respectively. According to the Pro Forma FI, the unaudited consolidated total assets and total liabilities of the Remaining Group as at 31 December 2021 would be approximately RMB21.12 billion and RMB9.01 billion respectively as if the Disposal had been completed on 31 December 2021.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Disposal are on normal commercial terms and are fair and reasonable; and (ii) the Disposal 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 Disposal 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 purpose only*

This asset valuation report is prepared in accordance with Chinese Valuation Standards

ASSET VALUATION REPORT ON PART OF THE SHAREHOLDERS' EQUITY VALUE IN FULLGOAL FUND MANAGEMENT CO., LTD. INVOLVED IN THE PROPOSED TRANSFER OF 16.675% EQUITY INTERESTS IN FULLGOAL FUND MANAGEMENT CO., LTD. HELD BY SHANDONG INTERNATIONAL TRUST CO., LTD.

Zhong Lian Lu Ping Bao Zi [2022] No. 13028

China United Assets Appraisal Group Shandong Co., Ltd.

4 March 2022

STATEMENT

1. This asset valuation report was prepared in accordance with the Basic Rules for asset valuation issued by the Ministry of Finance and the Practice Guidelines for asset valuation as well as the Code of Ethics for asset valuation issued by the China Appraisal Society.

2. The principal or other users of the asset valuation report should use the asset valuation report in accordance with the provisions of laws and administrative regulations and within the scopes as specified in the asset valuation report. We, the asset valuation institution and the professional asset valuers take no responsibility for any non-compliance of the above-mentioned requirements for the use of the asset valuation report by the principal or other users of the asset valuation report.

   This asset valuation report shall only be used by the principal, other users of the asset valuation report stipulated in the asset valuation engagement contract, and users of the asset valuation report as required by laws and administrative regulations. Save for the above, any other institutions or individuals may not use the asset valuation report.

   We and the asset valuers advise that users of the asset valuation report should correctly interpret and use the valuation conclusions, which are not equivalent to the realisable values of the appraised target and should not be considered as a guarantee for the realisable value of the appraised target.

3. The valuation conclusions shall take effect upon the condition of authenticity, legality and completeness of the information provided by the principal and other relevant parties. The list of assets and liabilities included in the scope of valuation, as well as the predictive financial information, ownership certificates and other materials required for the valuation, have been reported and confirmed with seals or other ways by the principal and the appraised entity.

4. We and the asset valuers have no existing or expected interests either in the appraised target as referred to in the asset valuation report, or in the relevant parties, and have no prejudice against the relevant parties.

5. The asset valuers have carried out on-site inspection on the appraised target in the asset valuation report and its assets involved; paid necessary attention to the legal titles of the appraised target and its assets involved; verified the information related to the legal titles of the appraised target and its assets involved; made proper disclosure in respect of the identified issues; and requested the principal and other relevant parties to remove title defects in order to fulfil the requirements for the issuance of an asset valuation report.

6. The analyses, judgements and results in the asset valuation report issued by us, the Asset valuation institution is subject to the assumptions and limiting conditions in the asset valuation report. The users of the asset valuation report shall take into full account the assumptions, limiting conditions and special notes specified in the asset valuation report and their impact on the valuation conclusion.

7. We and its asset valuers comply with the laws, administrative regulations and asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and assume the responsibility for the issued asset valuation report.

ASSET VALUATION REPORT ON PART OF THE SHAREHOLDERS' EQUITY VALUE IN FULLGOAL FUND MANAGEMENT CO., LTD. INVOLVED IN THE PROPOSED TRANSFER OF 16.675% EQUITY INTERESTS HELD BY SHANDONG INTERNATIONAL TRUST CO., LTD.

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SUMMARY

China United Assets Appraisal Group Shandong Co., Ltd. was engaged by Shandong International Trust Co., Ltd. to appraise the market value of part of the shareholders' equity value in Fullgoal Fund Management Co., Ltd. involved in the economic activity of the proposed transfer of 16.675% equity interests held by Shandong International Trust Co., Ltd. as at the Reference Date.

The appraised target was part of the shareholders' equity value of Fullgoal Fund Management Co., Ltd., and the scope of valuation was all the assets and relevant liabilities of Fullgoal Fund Management Co., Ltd..

The Reference Date was 30 November 2021.

The type of the value for this valuation was the market value.

This valuation was conducted on the premise of continued use and open market. Taking into account the actual conditions of the appraised target and comprehensively considering various influence factors, we conducted an overall valuation over Fullgoal Fund Management Co., Ltd. by adopting the income approach and market approach before checking and comparison. With the application presumption and satisfaction of the valuation purpose of the valuation methods taken into account, the valuation conclusions derived from the market approach is selected as the final valuation conclusion.

Based on the judgement by the appraised entity and the management of the enterprise on the future development trend and the business plans, and upon conducting the valuation procedures, such as examination and verification, site inspection, market survey and confirmation, and determination of valuation, the valuation conclusion for the total shareholders' equity in Fullgoal Fund Management Co., Ltd. as at the Reference Date, i.e. 30 November 2021, was arrived at as follows:

The book value and appraised value of the net assets attributable to the parent company were RMB6,673,786,500 and RMB24,220,796,200 respectively, representing a valuation appreciation of RMB17,553,276,600 or an appreciation rate of 263.02%. Shandong International Trust Co., Ltd. holds 16.675% equity interest in Fullgoal Fund Management Co., Ltd., and the corresponding value of part of shareholders' equity is RMB4,038,817,800.

The valuation did not take into consideration the premium or discount caused by factors such as controlling right and minority interest, nor the impact on the valuation conclusion arising from liquidity of the equity interests.

For the application of the valuation conclusions, the users of this report are specially reminded to pay attention to the special issues and subsequent events of material importance as specified in this report.

According to the laws and regulations related to asset valuation, asset valuation reports involving valuation of business for legal compliance shall only be used upon the principal has performed the supervisory and administrative procedures regarding asset valuation as required by law and regulations. The valuation conclusions are effective from 30 November 2021 to 29 November 2022 for a term of one year.

The above content is extracted from the full text of the asset valuation report. For the detailed information and reasonable understanding of the valuation conclusions of this valuation, please refer to the full text of the asset valuation report.

ASSET VALUATION REPORT ON PART OF THE SHAREHOLDERS' EQUITY VALUE IN FULLGOAL FUND MANAGEMENT CO., LTD. INVOLVED IN THE PROPOSED TRANSFER OF 16.675% EQUITY INTERESTS HELD BY SHANDONG INTERNATIONAL TRUST CO., LTD.

Zhong Lian Lu Ping Bao Zi [2022] No. 13028

Shandong International Trust Co., Ltd.:

China United Assets Appraisal Group Shandong Co., Ltd. was engaged by the Company to appraise the market value of the part of the shareholders' equity value in Fullgoal Fund Management Co., Ltd. involved in the economic activity of the proposed transfer of 16.675% equity interests held by Shandong International Trust Co., Ltd. as at the Reference Date, i.e. 30 November 2021, by way of adopting the income approach and market approach and carrying out necessary valuation procedures in accordance with the relevant laws, administrative regulations and asset valuation standards while adhering to the principles of independence, objectivity and impartiality. Details of the asset valuation are reported as follows:

I. THE PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT

The principal and the appraised entity of this asset valuation are Shandong International Trust Co., Ltd. and Fullgoal Fund Management Co., Ltd.

(I) Overview of the principal

Name:	Shandong International Trust Co., Ltd.
Type:	Joint stock company with limited liability (listed and state-owned)
Address:	No. 166 Jiefang Road, Jinan, Shandong Province
Legal representative:	Wan Zhong
Registered capital:	RMB4,658.85 million
Paid-in capital:	RMB4,658.85 million
Date of establishment:	10 March 1987
Duration of operation:	From 10 March 1987 to an indefinite period

Unified social credit code:	9137000016304514XM
Scope of business:	the businesses as approved by China Banking Regulatory Commission in accordance with the relevant laws, administrative regulations and other requirements, while the business scope shall be subject to those as set out on the approval documents. (the validity period shall be subject to the licenses or permits). (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

(II) Overview of the appraised entity

1. Basic company information

Name:	Fullgoal Fund Management Co., Ltd.
Type:	Limited liability company (Sino-foreign joint venture)
Address:	27–30/F, Century Link Office Tower 2, No. 1196, Century Avenue, China (Shanghai) Free Trade Pilot Zone
Legal Representative:	Pei Changjiang
Registered capital:	RMB520 million
Date of establishment:	13 April 1999
Duration of operation:	From 13 April 1999 to an indefinite period
Unified social credit code:	9111000017000168XK
Scope of business:	Publicly raised securities investment fund management, fund sales, asset management for specific customers. (Projects subject to approval as required by laws shall be conducted upon the approvals by relevant authorities)

2. *Shareholding structure*

Set forth below are the names of the shareholders of Fullgoal Fund Management Co., Ltd., their respective capital contribution and percentage of capital contribution as at the Reference Date:

Table 1 Capital contribution and percentage of capital contribution

Name of shareholder	Capital contribution	Shareholding percentage
	'0,000	*%*
Bank of Montreal	14,443.00	27.775%
Haitong Securities Co., Ltd.	14,443.00	27.775%
Shenwan Hongyuan Securities Co., Ltd.	14,443.00	27.775%
Shandong International Trust Co., Ltd.	8,671.00	16.675%
Total	52,000.00	100%

3. *Assets, financial and operating conditions*

As at the Reference Date, i.e. 30 November 2021, Fullgoal Fund Management Co., Ltd. had total assets of RMB11,717,511,800, liabilities of RMB5,043,725,300 and net assets of RMB6,673,786,500 attributable to the parent company in its consolidated statements. It achieved operating income of RMB7,289,087,100, total profit of RMB2,869,326,700 and net profit of RMB2,188,629,100 attributable to the parent company for January to November 2021.

The following table sets forth the assets and financial position of Fullgoal Fund Management Co., Ltd. for a period of the past three years:

Table 2 Assets, Liabilities and Financial Position Shown on the Consolidated Statements

Units: RMB'0,000

Item	As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 November 2021
Total assets	470,175.30	565,570.36	874,565.00	1,171,751.18
Liabilities	130,877.38	171,101.92	353,064.09	504,372.53
Net assets attributable to the parent company	339,297.92	394,468.43	521,500.91	667,378.65

Item	2018	2019	2020	January to November 2021
Operating income	238,139.75	285,491.55	531,724.46	728,908.71
Total profit	92,714.02	104,131.48	216,849.86	286,932.67
Net profit attributable to the parent company	70,398.26	79,135.60	165,162.31	218,862.91
Auditors	Tianjin Zhongshen United Certified Public Accountants Co., Ltd. (Jinan Branch)			

(III) Relationship between the principal and appraised entity

In this asset valuation, Shandong International Trust Co., Ltd. is the principal and Fullgoal Fund Management Co., Ltd. is the appraised entity. The principal holds 16.675% equity interest in the appraised entity, and acts as the participating shareholder of the appraised entity.

(IV) Users of this valuation report

Users of this valuation report refer to the principal and the relevant regulatory agencies filed in accordance with the provisions. Save for further provisions under the national laws and regulations, no such institution or individual that is not confirmed by the valuer or the principal will become a user of this valuation report by simply obtaining the same.

II. PURPOSE OF VALUATION

In accordance with the Minutes of the General Manager's Office Meeting of Shandong International Trust Co., Ltd. (Lu Guo Xin Jing Hui (2022) No. 3), Shandong International Trust Co., Ltd. proposes to transfer 16.675% equity interest in Fullgoal Fund Management Co., Ltd.

This asset valuation aims to present the market value of part of the shareholders' equity in Fullgoal Fund Management Co., Ltd. involved in the proposed transfer of 16.675% equity interests held by Shandong International Trust Co., Ltd. as at the Reference Date, which serves as a reference for valuation of the abovementioned economic activities.

III. TARGET AND SCOPE OF VALUATION

The appraised target is part of the shareholders' equity value of Fullgoal Fund Management Co., Ltd. The scope of valuation is comprised of all the assets and related liabilities of Fullgoal Fund Management Co., Ltd. As at the Reference Date, the audited total book value of assets amounted to RMB11,717,511,800, the liabilities amounted to RMB5,043,725,300, and the net assets attributable to the parent company amounted to RMB6,673,786,500 in the consolidated statements. It achieved operating income of RMB7,289,087,100, total profit of RMB2,869,326,700 and net profit of RMB2,188,629,100 attributable to the parent company for January to November 2021.

The data regarding the abovementioned assets and liabilities was extracted from the standard unqualified audit report of Ji Shen Zi [2022] No. 003 by Tianjin Zhongshen United CPA, based on which business valuation was conducted.

The entrusted appraised target and scope of valuation are consistent with the appraised target and scope of valuation involved in economic activities.

(1) Information on major assets

As at the Reference Date, the total assets in the consolidated statements of Fullgoal Fund Management Co., Ltd. amounted to RMB11,717,511,800, with major assets including monetary funds, clearing settlement funds, held-for-trading financial assets, receivables, refundable deposits, dividend receivables, fixed assets, intangible assets, right-of-use assets, deferred tax assets and other assets.

The proportion of major assets are illustrated as follows.

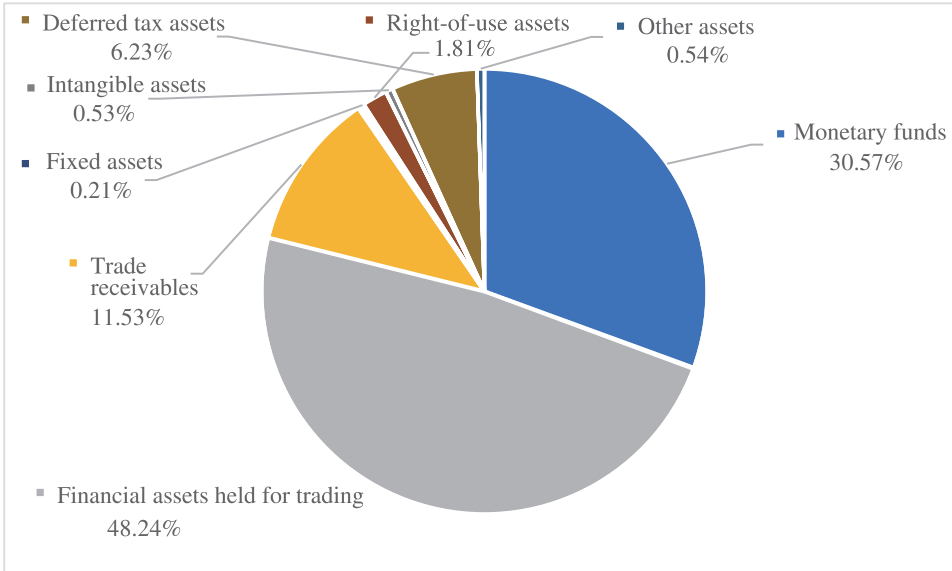

Figure1 Major assets distribution of Fullgoal Fund Management Co., Ltd.

(2) Distribution and characteristics of physical assets

The carrying amount of physical assets included in the valuation was RMB24,989,500, representing 0.21% of total assets within the scope of the valuation. These assets are mainly vehicles and electronic devices with the following characteristics:

1. Those physical assets were mainly distributed in Shanghai and in various offices.

2. Equipment assets mainly include vehicles, office electronic devices, network equipment, communication equipment, office furniture, etc. The enterprise has a strict system for the use, maintenance and repair of equipment and is effectively implemented, all of which can be used normally and can meet the needs of production and operation of the enterprise.

(3) The recorded or unrecorded intangible assets declared by the enterprise

The intangible assets declared by the enterprise are various system software currently used by the enterprise, and the software includes financial software, office software and system software related to funds dealing. As of the Reference Date, there are no unrecorded intangible assets in the scope of the enterprise's declaration.

(4) Types and quantities of off-balance sheet assets declared by the enterprise

All of the assets declared by the enterprise for valuation are assets recorded in the books of the enterprise and there are no off-balance sheet assets.

(5) Type, quantity and book value of assets involved in making reference to the conclusions of reports issued by other institutions

The book value of various assets and liabilities on Reference Date in this valuation report is cited from the standard unqualified audit report of Ji Shen Zi [2022] No. 003 by Tianjin Zhongshen United CPA. Save for the above, there is no reference to the reports from other organisations.

IV. VALUE TYPE AND ITS DEFINITION

Based on the purpose of this valuation, the value type of this valuation is defined as market value.

Market value refers to the estimated amount of the value of normal and fair transactions of the appraised target on the Reference Date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. REFERENCE DATE

The benchmark date for the asset valuation of this project is 30 November 2021.

This benchmark date is determined by the principal taking into consideration the amount of assets, workload, estimated time required, compliance and other factors of the appraised entity.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted mainly includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership, as well as the pricing basis and other reference information, as follows:

(1) Basis of economic activity

Minutes of the General Manager's Office Meeting of Shandong International Trust Co., Ltd. (Lu Guo Xin Jing Hui (2022) No. 3).

(2) Basis of laws and regulations

1. The Asset Valuation Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);

2. The Company Law of the People's Republic of China (amended at the 6th session of the 13th Standing Committee of the National People's Congress on 26 October 2018);

3. The Civil Code of the People's Republic of China (passed at the 3rd session of the 13th Standing Committee of the National People's Congress on 28 May 2020);

4. The Securities Law of the People's Republic of China (amended and adopted at the 15th session of the 13th Standing Committee of the National People's Congress on 28 December 2019);

5. The Enterprise Income Tax Law of the People's Republic of China (passed at the 5th session of the 10th Standing Committee of the National People's Congress of the People's Republic of China on 16 March 2007);

6. The Laws of the People's Republic of China on Securities Investment Funds (amended at the 14th session of the 12th Standing Committee of the National People's Congress, effective from 1 June 2004);

7. Tentative Provisions for the Administration of the Risk Control Metrics of Specific Client Asset Management Subsidiaries of Fund Management Companies (CSRC (2016) No. 30);

8. The Provisions on Administration of Subsidiaries of Fund Management Companies (CSRC Announcement (2016) No. 29);

9. The Administrative Measures for Valuation of State-owned Assets (Order No. 91 of the State Council in 1991);

10. The Interim Regulations for the Supervision and Administration of Enterprise State-Owned Assets (Order No. 378 of the State Council);

11. The Supervisory and Administrative Measures of the Transactions of Enterprise State-owned Assets) (Order No. 32 of SASAC and the Ministry of Finance);

12. The Interim Measures for Supervision and Management of State-owned Asset Evaluation of Financial Enterprises (Order No. 47 of the Ministry of Finance on 12 October 2007);

13. Notice on Issues concerning Further Strengthening the Administration of Equities of State-owned Financial Enterprises (Cai Jin [2016] No. 122);

14. The Guiding Opinions on Regulating the Assets Management Business of Financial Institutions (Yin Fa [2018] No. 106 on 27 April 2018);

15. Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (No. 54 of the Ministry of Finance);

16. The Implementation Rules of Interim Regulations on Value-Added Tax of the People's Republic of China (Order No. 691 of the State Council) (Revision passed at the 191st executive meeting of the State Council on 30 October 2017);

17. The Circular on the Policies in relation to Deepening Value-added Tax Reform (No. 39 of 2019 of the Ministry of Finance, State Administration of Taxation and General Administration of Customs);

18. The Circular of the Ministry of Finance and the State Administration of Taxation regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46);

19. The Circular of the Ministry of Finance and the State Administration of Taxation on Launching the Pilot Program of Reforming from Business Tax to VAT in an All-round Way Cai Shui [2016] No. 36;

20. The Announcement of the State Administration of Taxation on Matters relating to Tax Levying and Administration concerning the Comprehensive Promotion of the Pilot Collection of Value-added Tax in lieu of Business Tax (the State Administration of Taxation Announcement 2016 No. 23);

21. The Circular of the State Administration of Taxation on Clarification of Several Collection and Administration Issues in Pilot Program of Replacing Business Tax with Value-added Tax (the State Administration of Taxation Announcement 2016 No. 26);

22. Other laws, regulations, rules, and systems related to the valuation.

(3) Basis of valuation criteria

1. Asset Valuation Standards – Basic Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (CAS [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedures (CAS [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Methods (CAS [2019] No. 35);

5. Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);

6. Asset Valuation Practicing Standards – Asset Valuation Report (CAS [2018] No. 35);

7. Asset Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);

8. The Guidelines for the Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 42);

9. The Guidelines for the Financial Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 43);

10. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (CAS [2017] No. 33);

11. Asset Valuation Practicing Standards – Asset Valuation Files (CAS [2018] No. 37);

12. Guidelines for Business Quality Control of Asset Valuation Institutions (CAS [2017] No. 46);

13. Guidance on Legal Ownership of Asset Valuation Object (CAS [2017] No. 48);

14. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (CAS [2017] No. 35);

15. Other standards related to the valuation.

(4) Basis of asset ownership

1. Motor Vehicle Driving Permit;

2. Purchase contracts or evidences of material assets;

3. Other reference information.

(5) Pricing basis

1. The statistical information published on the website of Asset Management Association of China;

2. RMB exchange base rate issued by State Administration of Foreign Exchange as at the Reference Date;

3. Loan prime rate (LPR) announcement authorised to be published by the National Interbank Funding Centre as at the Reference Date, which was published by People's Bank of China;

4. Requirements on Impairment Allowance for Financial Institutions (Cai Jin [2012] No. 20);

5. Data from Price Information Database of China United Assets Appraisal Group Shandong Co., Ltd.;

6. Contracts and information of significant businesses;

7. Other reference information.

(6) Other reference information

1. Wind Info Financial Terminal;

2. The standard unqualified audit report of Ji Shi Zi [2022] No. 003 by Tianjin Zhongshen United CPA;

3. Investment Valuation. ([US] by Damodanran, [Canada] Translated by Lin Qian, Tsinghua University Press);

4. Valuation: Measuring and Managing the Value of Companies (3rd Edition) ([US] by Copeland, T. and etc., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);

5. Handbook of Commonly Used Data and Parameters for Asset Valuation (Mechanical Industry Press, 2011 Edition);

6. 41 specific standards, including Accounting Standards for Business Enterprises – General Standards (Decree No. 33 of the Ministry of Finance, announced by the Ministry of Finance on 15 February 2006 and amended in July 2014) and Accounting Standards for Business Enterprises 1 – Inventory;

7. Asset Valuation Expert Guide No. 1 – Financial Regulatory Indicators that Should Be Paid Attention to in the Appraisal of Financial Enterprises (Zhong Ping Xie [2015] No. 62);

8. Asset Valuation Expert Guide No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises (Zhong Ping Xie [2015] No. 64);

9. Asset Valuation Expert Guide No. 4 – Market Approach Appraisal Model and Parameter Determination for Financial Enterprises (Zhong Ping Xie [2015] No. 65);

10. Relevant information on the websites of China Securities Regulatory Commission, Beijing Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange;

11. Other reference information.

VII. VALUATION METHODS

(1) Introduction to valuation methods

In accordance with the Asset Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38) and the Asset Valuation Practicing Standards – Asset Valuation Methods (CAS [2019] No. 35), when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely, the income approach, the market approach and the asset-based approach shall be analysed based on the purpose of valuation, the appraised target, the type of the value, suitability requirements of valuation methods, quality and quantity of reference data adopted under the valuation methods.

The income approach for the valuation of an enterprise refers to the valuation method whereby the value of the appraised target is determined by capitalising or discounting the projected income. The professional asset valuers shall appropriately take into consideration the suitability of the income approach in reference to the business nature, asset size, historical operations, future profit forecast, and adequacy of information collected for assessment.

The market approach for the valuation of an enterprise refers to the valuation method whereby the value of the appraised target is determined by comparing the appraised target with comparable listed companies or comparable transaction cases. The professional asset valuers shall take into consideration the suitability of the market approach in reference to the adequacy and reliability of business operations and financial data, and comparable enterprises to collated.

The asset-based approach for the valuation of an enterprise refers to the valuation method whereby the value of the appraised target is determined by reasonable valuation of identifiable on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the appraised entity on the Reference Date.

(2) Selection of valuation methods

The valuation is carried out for the purpose of the transfer of equity interests in Fullgoal Fund Management Co., Ltd. by Shandong International Trust Co., Ltd.

As the assets-based method reflects an enterprise's value by putting business acquisition and construction into perspective, and it is rather difficult for this method to reflect the value of fund company's license, therefore the assets-based method is not used for this valuation.

As the appraised entity qualifies for the basis and requirements of continuance, while future profit and risks are predictable and quantifiable, and therefore the income approach can be used for this valuation.

Prior to or subsequent to the Reference Date, there are many equity transaction cases with high comparability in the market similar to the evaluated entity in business scope, business scale and development phase. Therefore the market approach is selected in this valuation.

In conclusion, the income approach and market approach are adopted in this valuation.

(3) Income approach

1. Introduction

Pursuant to the Asset Valuation Practicing Standards – Enterprise Value, the income approach for valuation of enterprise value, also known as the discounted cash flow method is a method that discounts and sums future cash flows based on the corresponding discount rate which is determined in accordance with the expected future cash flows of a business or a revenue-generating unit and its risks. The basic idea of the income approach is to derive the appraised value by estimating the future expected net cash flow of the assets and then discounting it to the present value with an appropriate discount rate. The basic conditions for applying the income approach are: the enterprise has the foundations and conditions to continue as a going concern; there is a stable corresponding relation between the operation and income; and the future income and risk can be forecasted and quantified.

2. Valuation methods

According to the due diligence results and the asset composition and characteristics of principal operations of the appraised entity, in this valuation, the value of the equity capital of the appraised entity was estimated based on the consolidated financial statements. The basic method of the valuation is as follows:

(1) In respect of assets and principal businesses included in the scope of the financial statements, the value of operating assets is derived by discounting their expected income (net cash flow) based on the trend of historical operating conditions and the types of businesses;

(2) The assets (liabilities) that are included in the scope of the financial statements but not taken into account in the forecast of expected income (net cash flow), were defined as surplus or non-operational assets (liabilities) existed as at the Reference Date, and their values were forecasted separately;

(3) In respect of long-term equity investments included in the scope of the financial statements but not taken into account in the estimation of expected income (net cash flow), their values were forecasted separately;

(4) The value of the total shareholders' equity of the appraised entity was derived by adding up the values of the above assets and liabilities.

In determining the value of the total shareholders' equity, neither premium and discount caused by such factors as controlling interest and minority interest, nor impact of the equity interests on the valuation conclusions was considered by this valuation.

3. *Valuation model*

(1) Basic model

The basic model for this valuation is set out as below:

$$E = P + C \quad \cdots\cdots \quad (1)$$

E: Value of the total shareholders' equity interests in the appraised target;
P: Value of the operating assets of the appraised target;

$$P = \sum_{n=1}^{n} \frac{R_n}{(1+r)^n} + \frac{R_n \times (1+g)}{(1+r)^n \times (r-g)} \quad \cdots\cdots \quad (2)$$

Ri: Expected income of the appraised target in year i in the future (free cash flow of equity);
r: Discount rate;
g: Endogenous growth rate;
n: Future operating term of the appraised target;
c: Value of surplus or non-operational assets (liabilities) of the appraised target as at the Reference Date.

(2) Income indicators

In this valuation, the free cash flow of equity was used as an income indicator of the appraised target's operating assets. Its basic definition was as follows:

R= net profit – increase in equity + other comprehensive gains

The expected free cash flow of equity of the appraised target in the future was estimated according to its operation history, market development conditions in the future and etc., and then the free cash flow of equity in the future operation term was discounted and added up to work out the value of the shareholders' equity.

(3) Discount rate

In this valuation, capital asset pricing model (CAPM) was used to determine the discount rate r:

$$r = r_f + \beta_e(r_m - r_f) + \varepsilon \quad \text{......} \quad (3)$$

Where:

r_f: Risk-free return rate;
r_m: Expected market yield;
β_e: Expected market risk factor of equity capital;
ε: Specific risk-adjusted factor.

4. Income period

According to the articles of the appraised entity, the enterprise has a long operating term and the appraised entity was under normal operation as at the Reference Date. There are also no limitations on the useful life of the core assets that affect the enterprise's operation on a going concern basis and on the production and operation period of the enterprise and the duration of investor's ownership, and extension can be applied to achieve sustainable use. Therefore, this valuation assumes that the appraised entity operates on a going concern basis after the Reference Date and the corresponding income period is indefinite.

(4) Market approach

1. Introduction

Pursuant to the Asset Valuation Practicing Standards – Enterprise Value, the market approach for valuation of enterprise value refers to the approach in which the appraised entity shall be compared with other comparable listed companies or transactions so as to determine the value of the appraised entity.

(1) Preconditions for the application of market approach

The following basic preconditions shall be met for the application of market approach in evaluating enterprise value:

1) There should be a fully developed, active and open market in which transaction prices essentially reflect the quotation of buyers and sellers on the market, thus eliminating the chance of individual transactions.

2) There should be comparable enterprises and their trading activities in the open market, and the trading activities should reflect the trend of enterprise value well. Comparability of enterprises and their transactions means that the selected comparable enterprises and their transaction activities have occurred in the open market recently and are similar to the target enterprises to be evaluated and their upcoming business activities.

3) The factors influencing the value of the object of reference and the evaluated entity are clear and quantifiable, and the relevant information can be collected.

(2) The reason and basis for selecting market approach

The two commonly used specific methods of market approach are comparison method of listed companies and comparison method of transaction cases.

The comparison method of listed companies refers to a specific method of obtaining and analysing the operation and financial data of comparable listed companies, calculating the value ratio, and determining the value of the valuation object on the basis of comparative analysis with the evaluated entity.

The comparison method of transaction cases refers to the specific method of obtaining and analysing the data of the transaction, acquisition and merger cases of comparable enterprises, calculating the value ratio, and determining the value of the evaluated targets on the basis of comparative analysis with the evaluated entity.

At present, there are no domestic fund companies listed in the A share market, and there are significant difference between the existing listed companies in the trust and brokerage and fund management companies in respect of the business types of asset management, fees collection model, and the proportion of asset management income in total business income. The comparison method with listed companies are not applicable.

As the active transaction cases of equity transfer of fund company in the mergers and acquisitions (M&A) market in recent years, and given that relevant information of M&A cases, specific conditions affecting the transaction price and related indicator data are available through Wind data terminal, an analysis could be made on the transaction price. The comparison method with transaction cases is adopted in this valuation.

2. Valuation methods

Valuation by market approach is carried out in the following steps:

(1) Select appropriate comparable enterprises and establish comparable prices

1) Collect information about comparable enterprises and select and determine an appropriate number of comparable enterprises. Selection of comparable enterprises is based on the following principles:

A. Select comparable enterprises that are identical or comparable in terms of the trading market;

B. Select comparable enterprises that are identical or similar in terms of influence factors of value;

C. Select comparable enterprises whose trading time is close to the Reference Date;

D. Select comparable enterprises whose transaction type is suitable for the valuation purpose;

E. Select comparable enterprises that are normal or can be modified to normal transaction prices.

2) Adjustments of transaction prices for the comparable enterprises are mainly considered in the following aspects:

A. Adjustment to the difference in trading time between the comparable enterprises and appraised entities, including the impact of market cycle fluctuations and price changes;

B. Adjustment to the differences in the transaction backgrounds between the comparable enterprises and appraised entities, including factors of differences in trading market, trading conditions and payment terms;

3) Adjustment to the comparability of comparable enterprises. There are differences between the comparable enterprises and the appraised entities in terms of business structure, operation model, scale of enterprise, asset allocation and use, R&D and innovation, enterprise's life cycle, growth capability, operation risks, financial risks, etc. Therefore, it is necessary to make adjustments to make the comparable companies and the appraised entities more comparable.

4) The transaction prices of comparable companies are adjusted separately according to the above factors to obtain their respective comparable prices.

(2) Select appropriate value ratio and calculate the comparative benchmark value

1) Determine appropriate value ratio. Value ratio usually includes profit, asset, income and other specific ratios. Relative proper value ratio shall be selected by way of conducting linear regression analysis to factors affecting the value of the industry that the appraised entity and comparable enterprises operates in combine with data of capital market.

2) Calculate each value ratio multiple based on comparable prices of comparable companies and each value indicator.

3) Analyse and compare comparable companies and appraised entities to establish an applicable value parameters comparison system.

4) Establish value parameters comparison criteria, compare the parameters or indicators of comparable companies with those of the appraised entities, and obtain the value ratio correction factor.

5) Calculate the appraised entity's comparative benchmark value based on the value ratio multiple and value ratio correction factor to obtain the comparative benchmark value of all the equity of the appraised entity.

(3) Calculation of appraised value

The appraised value of the total equity value of shareholders of appraised entity can be derived by conducting statistical analysis to the various comparative benchmark value of each comparable enterprise. Value of part of the shareholders' equity can be calculated according to the valuation purpose.

In determining the value of the total shareholders' equity, neither premium and discount caused by such factors as controlling interest and minority interest, nor impact of the equity liquidity on the valuation conclusions was considered by this valuation.

3. Valuation model

The basic model for this valuation is set out as below:

E=P+I+C
E: Value of the total shareholders' equity;
P: Value of the operating assets of the appraised target;
I: Value of long-term equity investments;
C: Surplus and non-operational assets value;
P=Value indicators of the appraised entity × modified value ratio factor

VIII. IMPLEMENTATION PROCESS AND STATUS OF VALUATION PROCEDURES

The overall valuation work was performed in four stages:

(I) Preparation stage of the valuation

1. Project negotiation and acceptance of project commission

Asset valuation commission contract was signed after understanding the basic information of the appraised entity and the appraised target involved in the business to be undertaken, defining the valuation purpose, the appraised target, the scope of valuation and the Reference Date, and conducting comprehensive analysis and valuation of our professional competence, independence and business risks in accordance with specific conditions including the valuation purpose and transaction background.

2. Determining the valuation scheme and preparing the work plan

Following full communications between the principal and the intermediaries of the relevant parties, the basic matters of asset valuation, and the assets and operating conditions of the appraised entity are further confirmed, while the basic policies, laws and regulations governing the industry where the appraised entity operates, and market operations in the industry are collected, based on which, the proposed preliminary work plan and valuation scheme were formulated.

3. Submitting the information list and the interview outline

A list of information required for the due diligence as well as the list of assets, profit forecast and other sample forms based on the characteristics of the assets to be appraised were submitted for the appraised entity to prepare for the valuation.

4. Providing instruction for the completion of forms and preparing materials for valuation

Relevant staff of the appraised entity were provided with instructions to facilitate the appraised entity to prepare the required information and complete the relevant forms according to the requirements of the asset valuation.

(II) On-site engagement stage of the valuation

The major tasks of the on-site engagement stage were as follows:

1. Preliminary understanding of the overall situation

Relevant personnel of the principal and the appraised entity introduced the overall situation of the appraised entity and the historical and current conditions of the assets to be appraised, and explained the history and development, financial system, operation situation, fixed assets and technological conditions of the appraised entity.

2. Review and verification of materials

The declaration materials provided by the appraised entity were reviewed and examined, complete title documents of the assets to be appraised were collected and inspected, and were checked against the relevant financial data, and coordinated efforts were made in correcting any problems if identified.

3. Checking important items

Comprehensive inspection on major assets and operation and office premises of the appraised entity was conducted based on the declaration materials. Its declared financial assets and accounts were checked and verified against its bank statements, confirmation letters and various business contracts to confirm its existence and analyse its risks.

4. Conducting due diligence interviews

Through due diligence and interviews with senior management, the status and market share of the enterprises' products in the industry as well as the cost of the enterprise were understood, and analysis on the future development trend of the enterprise was carried out. For the profit forecast data declared by the enterprise, discussions with the management of the enterprise was conducted to reach agreement on future development trends as much as possible, and then verification was achieved through enquiry of the industry development trend.

5. Determining valuation approaches and methods

Specific models and methods for asset valuation were determined according to the actual status and features of the assets to be appraised.

6. Conducting the appraisal and valuation

Valuation models were determined to calculate the valuation conclusions and relevant text descriptions were prepared based on the agreed understanding.

(III) Valuation consolidation stage

The preliminary conclusions of the valuation on various types of assets and liabilities were analysed and consolidated, and necessary adjustments, amendments and improvements were made to the valuation conclusions.

(IV) Report submission stage

On the basis of the above processes, an asset valuation report was drafted and preliminarily reviewed, and ideas were exchanged with the principal in respect of the valuation conclusions. After independent analysis of relevant opinions had been carried out, corrections and adjustments were made according to the internal audit system for asset valuation report and procedures of the valuation institution and the final asset valuation report was produced.

IX. VALUATION ASSUMPTIONS

In this valuation, the valuers followed the below valuation assumptions:

(I) General assumptions

1. Transaction assumption

In the transaction assumption, all assets to be appraised are assumed to be already in the process of transaction, and the valuers assess the value based on the trading conditions of the assets to be appraised in a simulated market. The transaction assumption is one of the most basic prerequisites that asset valuation can be carried out.

2. Open market assumption

In the open market assumption, it is assumed that for assets to be traded or intended to be traded in the market, the parties to an asset transaction shall have equal status, and also have opportunity and time to gain sufficient market information, so as to make rational judgment on functions, purpose and trading prices of assets. The open market assumption is based on the fact that assets can be publicly traded on the market.

3. Assumption of continuous use of assets

The assumption of asset going concern means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

(II) Special assumptions

1. There are no material changes in the existing relevant laws, regulations and policies and the macroeconomic situation of the country, and there are no material changes in the political, economic and social environment of the regions where the parties to the transaction are located.

2. It is assumed that the enterprise will operate on an ongoing basis in light of the actual conditions of the assets as at the Reference Date.

3. It is assumed that the operators of the appraised entity are responsible and that the management of the Company is capable of assuming their positions.

4. Unless otherwise stated, it is assumed that the Company fully complies with all relevant laws and regulations.

5. It is assumed that the accounting policies to be adopted by the appraised entity in the future are basically consistent with the accounting policies adopted in the preparation of this report in material aspects.

6. It is assumed that the Company operates in the same scope and manner as those of the current based on the existing management style and management level.

7. There are appropriate number of comparable companies comparable to the appraised entity and belonging to the same industry or subject to the same economic factors.

8. The comparable companies are the same or similar to the appraised entity in terms of value influencing factors.

9. Both the comparable companies and the appraised entity are capable of continuing operations in accordance with the business model, business structure and capital structure as publicly disclosed at the time of the transactions.

10. The information disclosed by comparable companies is true, accurate and complete, and there are no false statements, errors or material omissions that affect value judgment.

11. The valuators only select the comparison dimensions and indicators based on the relevant information of comparable companies publicly disclosed, without consideration of the impact of other non-public matters on the value of the appraised entity.

12. This valuation is based on the assumption that there are no liabilities arising from matters not publicly disclosed and not reflected in the accounts of Fullgoal Fund Management Co., Ltd. as at the Reference Date.

When the above conditions change, the valuation conclusions may usually become invalid.

X. THE CONCLUSION OF VALUATION

Based on the judgment of the appraised entity and the management of the enterprise on the future development trend and the implementation of business plans, and in accordance with the relevant laws and regulations and asset valuation standards, the income approach and market approach have been adopted after implementation of valuation procedures, including checking and verification, on-site inspection, market research and inquiry, assessment and estimation. The assessment of the market value of the total shareholders' equity of Fullgoal Fund Management Co., Ltd. as at the Reference Date (i.e. 30 November 2021) was carried out.

(I) Valuation conclusion under the income approach

By adopting the income approach, it was derived that the book value of net assets attributable to the parent company of Fullgoal Fund Management Co., Ltd. as at the Reference Date (i.e. 30 November 2021) was RMB6,673,786,500, the appraised value was RMB23,626,485,200, and the appraised appreciation was RMB16,952,698,700, representing an appreciation rate of 254.02%. Shandong International Trust Co., Ltd. holds 16.675% equity interest in Fullgoal Fund Management Co., Ltd., and the corresponding value of part of shareholders' equity is RMB3,939,716,400.

(II) Valuation conclusion under the market approach

By adopting the market approach, it was derived that the book value of net assets attributable to the parent company of Fullgoal Fund Management Co., Ltd. as at the Reference Date (i.e. 30 November 2021) was RMB6,673,786,500, the appraised value was RMB24,220,796,200, and the appraised appreciation was RMB17,553,276,600, representing an appreciation rate of 263.02%. Shandong International Trust Co., Ltd. holds 16.675% equity interest in Fullgoal Fund Management Co., Ltd., and the corresponding value of part of shareholders' equity is RMB4,038,817,800.

(III) Analysis of the differences between the valuation conclusions

The value of total shareholders' equity calculated by market approach in this valuation was RMB24,220,796,200, which was RMB594,311,000 or 2.52% higher than the value of total shareholders' equity calculated by the income approach of RMB23,626,485,200. The difference between the two valuation methods was mainly due to:

1. Valuation by income approach regards the expected return on the asset as the value criterion, reflecting the magnitude of the asset's operating capacity (profitability), and such profitability will usually be influenced by a variety of conditions such as macroeconomics, government control and effective use of the assets;

2. Valuation by market approach estimates the value of the appraised entity by analysing the market transactions in the same industry or similar industries, reflecting the valuation of enterprise value in the open market under normal and fair transaction conditions. This method will usually be affected by comparable companies and adjustment systems.

Based on the above, the differences are generated between the two valuation methods.

(IV) Selection of valuation conclusions

The income approach regards the judge on the profitability of the overall enterprise as the core, and reflects more objectively the value of the enterprise and the value of shareholders' equity. The market approach, on the other hand, analyses various indicators of the reference company to make reference to the ratios of the company's equity or the overall value of the company to one of its profitability indicators, asset class indicators or other characteristic indicators, extrapolates the ratio multiple that the appraised entity should have based on aforementioned ratio multiple, and derive the value of the shareholders' equity of the appraised company. In the income approach, the fund scale of a fund company is closely related to the country's macroeconomic environment, and is heavily influenced by the PRC monetary policy and regulatory policies in fund sector. As China's current macro economy is in the face of the complicated domestic and international environment, income projection assumptions are subject to many constraints, resulting in a high degree of uncertainty regarding the income. Therefore, the income approach is not adopted in this valuation; meanwhile, considering that there are cases of similar securities company transactions in the capital market in recent years, and the market approach data is more directly taken from the market, it can also reflect the market valuation of the securities company by investors in a more timely and better manner when changes occur in the market. Consequently, the valuation results of the market approach are relatively reliable, and the valuation results of the market approach are taken as the final valuation conclusion in this valuation.

From the above analysis, the value of total shareholders' equity of Fullgoal Fund Management Co., Ltd. as at the Reference Date was RMB24,220,796,200. Shandong International Trust Co., Ltd. holds 16.675% equity interest in Fullgoal Fund Management Co., Ltd., and the corresponding value of part of shareholders' equity is RMB4,038,817,800.

Neither premium and discount caused by such factors as controlling interest and minority interest, nor impact of the equity liquidity on the valuation conclusions was considered by this valuation.

XI. NOTES ON SPECIAL MATTERS

(I) Quotation of report conclusions issued by other institutions

The book value of assets and liabilities on the Reference Date in this valuation report is the standard unqualified audit report of Ji Shen Zi [2022] No. 003 by Tianjin Zhongshen United CPA. Save for the above, there is no reference to the reports from other organisations.

(II) Incomplete or defective ownership information

Nil.

(III) Restrictions on the valuation procedures or incomplete valuation information

Nil.

(IV) Pending legal and economic matters as at the Reference Date

Nil.

(V) Nature and amount of guarantees, leases and contingent liabilities (contingent assets) and relationship with the appraised target

Nil.

(VI) Significant subsequent events

Nil.

(VII) Defects in the economic activities relating to this asset valuation which may have a material effect on the valuation conclusion

Nil.

(VIII) Other explanatory matters

1. It is the legal responsibility for the valuer and the valuation firm to make professional judgment on the value of the assets for the valuation purposes depicted in this report, and no judgment whatsoever would be made by the valuer and the valuation firm as to the economic activity corresponding to those valuation purposes. To a large extent, the valuation depends on the information provided by the principal and appraised target. Therefore, valuation is premised on the fact that Economic Activity Documents, asset title documents, license and accounting vouchers and the relevant legal documents provided by the principal and appraised target were authentic and legal.

2. The objectives of the valuers conducting the asset valuation are to estimate the value of the appraised target and to express professional advice thereof, and accept no responsibilities for the decision of the relevant party. The valuation conclusion shall not be construed as a guarantee of the realisable value of the appraised target.

3. The principal and the appraised target are held responsible for the authenticity and completeness of the data, statements and the relevant information which were provided by the appraised target and were used within the scope of this valuation.

4. The principal and the appraised target are held responsible for the authenticity and legality of the title documentary proof and relevant information which are provided by the appraised target and are referred to in the valuation report.

5. In the event that any changes in the quantity and the pricing standard of assets occurred within the term of validity after the Reference Date, the principles set out below shall be followed:

    (1) In the event that quantity of assets changes, corresponding adjustments shall be made to the quantity of assets according to the original valuation method;

    (2) In the event that the pricing standard of the assets changes and imposes obvious impacts on the asset valuation results, the principal shall timely employ qualified asset valuation agency to redetermine the appraised value;

    (3) After the Reference Date, the principal shall give due consideration to changes in the quantity and the pricing standard of assets and make corresponding adjustment when determining prices.

6. The conclusion of this valuation is based on the assumption that the owner of property rights and the management of the appraised target make accurate judgments on the development trend in future and related plans will be duly implemented as well as continuous operation. If the future actual operation conditions of the company deviate from the operation plans, and the owners of property rights and the management of the appraised target fail to adopt remedies in time to correct such deviation, the conclusion of this valuation will change substantially. Therefore, users of the report are strongly advised to pay close attention in this regard.

7. The scope of valuation shall be subject to that in the asset valuation list provided by the principal and the appraised entity, without taking into consideration any existing or contingent assets or contingent liabilities other than those included in the aforesaid list.

XII. EXPLANATION ON LIMITATION ON THE USE OF THE VALUATION REPORT

(1) This valuation report may only be used according to the objectives and purposes as stated herein. Meanwhile, the valuation conclusion reflects the prevailing market fair value under the valuation purpose based on the open market principle, without considering the impact of mortgages and guarantees that the appraised target may be subject to in the future, nor the impact of additional price which may be paid by special trading parties. Meanwhile, the effects of changes in national macro-economic policies, the natural force and other force majeure on the price of assets are not taken into account. In general, if the aforesaid conditions and other situations such as going concern basis changes, valuation conclusion will become invalid. The valuation agency is not liable for invalidity of the valuation conclusion due to changes of such conditions.

(2) This valuation report is only valid when the economic activity complies with the state laws and regulations and the valuation report is approved by relevant departments.

(3) The valuation report may only be used by users expressly stated herein. The right to use this report is vested in the principal. The valuation agency will not make the report public without the approval of the principal.

(4) The asset valuation firm and its valuers shall not bear responsibilities if the principal or other users of the asset valuation report fail(s) to use the asset valuation report in accordance with the provisions of laws and administrative regulations or within scope of use specified in the asset valuation report.

(5) Except for the principal, other users of this asset valuation report designed in the asset valuation entrustment contract and asset valuation users of this report stipulated by laws and administrative regulations, any other firms or individuals cannot be asset valuation users of this report.

(6) Save as required by laws and regulations or otherwise agreed upon by relevant parties concerned, the extraction, reference or disclosure of the whole or any part of contents of this valuation report in any public media shall be subject to approval and review of such contents by the valuation agency.

(7) Validity period of the valuation conclusion: According to relevant laws and regulations on asset valuation, the asset valuation report involving statutory valuation business must be used by the principal after performing the asset valuation supervision and management procedures in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for a term of one year from 30 November 2021 (the Reference Date) to 29 November 2022. Revaluation is required after the one-year term expires.

XIII. DATE OF VALUATION REPORT

This valuation report is dated 4 March 2022.

China United Assets Appraisal Group Shandong Co., Ltd.

Asset Valuer: Wang Zhaowen

Asset Valuer: Guo Haiguo

4 March 2022

CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021

Financial information of the Group for each of the years ended 31 December 2019, 2020 and 2021 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

INDEBTEDNESS

As at the close of business on 30 April 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 RMB12.18 million. The Group (as the lessee) has lease liabilities of approximately RMB9.9 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 30 April 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 Disposal, (ii) the current internal resources; (iii) the currently available facilities from China Trust Protection Fund, 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 2021, the global pandemic has frequently rebounded, and the continued high commodity prices, supply bottlenecks and energy shortages may cause overseas production and consumption to be disrupted and inflation to last longer. It is difficult for global economic activities to return to normal in the short term. China has responded calmly to the changes and the pandemic situation in the century, scientifically coordinated the COVID-19 pandemic prevention and control, coordinated the economic and social development, deepened macro policies, made cross-cycle adjustments, maintained a global leading position in economic development and pandemic prevention and control, and the main macro indicators are in a reasonable range. Due to the COVID-19 pandemic outbreak and stricter regulatory policies, the scale of trust assets managed by the Company has decreased, and the operating income has declined.

Despite the above impacts, the trust business structure has been continuously optimised, with the scale of non-standard financing and channel business decreasing, and the scale of standard trust, family trust and other businesses continuing to grow. This drives the Company's strategy direction in 2022, which is a key year for the Company to consolidate its development foundation, accelerate reform and transformation, and strive to build a "respected professional wealth management organisation based on asset allocation". The Company firmly held the general principle of "pursuing progress while ensuring stability", complied with the regulatory guidance and market needs, took the chance of deeply carrying out the "The Year of Refined Management Improvement" activity, coordinated pandemic prevention and control, reform and development and risk control, and comprehensively promoted the scientification of the organisational system, the systematisation of business processes and the standardisation of rules and regulations, so as to achieve high-quality development.

Firstly, focusing on transformation and innovation of the main business, accelerating the development of standard products, family trust, service trust and other businesses encouraged and advocated by regulators. The Company will strengthen the market-oriented reform, focus on improving the quality of its principal business, strive to improve professional investment capabilities and standard products allocation levels; strengthen the capacity-building of family account management, consolidate and enhance its competitive advantages of family trust; focus on key businesses such as cash management, bond investment, portfolio investment and asset securitisation, strengthen the construction of investment and research capacity, further broaden cooperation channels, and continue to expand the business scale.

Secondly, based on the transformation of wealth management, giving full play to the advantages of the core license of portfolio management. The Company will focus on the three strategies of "individual + institution", "standard + service" and "online + offline" to promote the transformation of the Company's wealth management; vigorously expand the business of institutional customers and expand the channels of financial institutions, continue to strengthen the construction of the Company's wealth service network, and comprehensively improve its business capability and marketing strength; promote the serialisation of products and the branding of wealth management in an orderly manner, so as to improve the popularity and influence of wealth brands.

Thirdly, continually improving the level of financial technology and enhancing the capability to support transformation and development. The Company will focus on building a service-oriented technology model based on capability improvement and driven by the integration of static and dynamic services, reconstruct the IT system architecture, and complete the construction of standard asset management system, asset securitisation system and family trust system. The Company will continue to optimise the function of SITC APP, enable the mobile business services for family trust, promote the implementation of upgraded versions of comprehensive management platform, registration and transfer system and data centre, and research on the system architecture of the "Family Wallet" and collective fund management services trust platform, so as to provide a solid support for the transformation and development of the Company.

Fourthly, comprehensively improving the quality of refined management and preventing and resolving major risks. Taking the "Year of Refined Management Improvement" as an opportunity and following the idea of "promoting specialisation in headquarter and integration in branch offices", the Company will continue to optimise and upgrade the organisational structure and human resources system, focus on increasing the introduction of professionals in financial technology, service trust, capital market business, etc., and break through the development bottleneck to fully release the benefit of reform. The Company will continue to improve the comprehensive risk management system based on the "four lines of defense" of business development, risk compliance, audit and disciplinary inspection and supervision; and consolidate the main responsibility for risk mitigation, and take multiple measures to increase the disposal of risk projects.

UNAUDITED FINANCIAL INFORMATION OF THE FULLGOAL FUND

Set out below are unaudited consolidated statements of financial position of the Fullgoal Fund Management Co., Ltd. ("**Disposal Entity**") and its subsidiaries (collectively, the "**Disposal Group**") as at 31 December 2019, 2020 and 2021, and the related unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for the years ended 31 December 2019, 2020 and 2021 ("**Relevant Period**"), and certain explanatory notes (collectively referred to as the "**Unaudited Financial Information of the Disposal Group**").

The Unaudited Financial Information of the Disposal Group has been prepared in accordance with paragraph 14.68(2)(a)(i) of the Listing Rules and prepared on the basis set out in note 2 to the Unaudited Financial Information and is prepared by the Directors solely for the purposes of inclusion in this circular in connection with the disposal of the equity interest in Fullgoal Management Co., Ltd. and Ruiyuan No.76 debt (the "**Disposal**").

SHINEWING (HK) CPA Limited, the auditor of Shandong International Trust Co., Ltd. (the "**Company**") was engaged to review the Unaudited Financial Information of the Disposal Group set out on pages 79 to 85 of this circular in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit. Accordingly, the auditor does not express an audit opinion.

Based on the review on the Unaudited Financial Information of the Disposal Group, nothing has come to the auditor's attention that causes them to believe that the Unaudited Financial Information of the Disposal Group is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Unaudited Financial Information of the Disposal Group.

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Assets			
Property and equipment	24,321	23,416	27,625
Right-of-use assets	224,241	184,045	198,420
Intangible assets	56,670	63,032	76,521
Financial assets at fair value through profit or loss	2,026,482	3,976,839	6,063,519
Deferred income tax assets	266,043	445,473	763,732
Trade receivables	677,514	1,334,609	1,489,193
Other assets	204,925	221,289	272,452
Cash and cash equivalents	2,394,977	2,682,953	3,750,852
Total assets	**5,875,173**	**8,931,656**	**12,642,314**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	14,235	16,247	–
Contract liabilities	14,408	8,091	2,075
Lease liabilities	228,748	192,014	211,708
Salary and welfare payable	836,729	1,693,791	2,874,483
Income tax payable	263,139	605,478	904,475
Other liabilities	585,596	1,208,661	1,607,486
Total liabilities	**1,942,855**	**3,724,282**	**5,600,227**
Equity			
Share capital	520,000	520,000	520,000
Capital reserve	2,000	2,000	2,000
Foreign currency translation reserve	2,493	(9,945)	(17,906)
Statutory surplus reserve	143,428	218,004	367,584
Statutory general reserve	1,738,983	2,162,049	2,883,162
Retained earnings	1,525,414	2,315,266	3,287,247
Total equity	**3,932,318**	**5,207,374**	**7,042,087**
Total liabilities and equity	**5,875,173**	**8,931,656**	**12,642,314**

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Fee and commission income	2,653,082	4,823,062	7,879,283
Interest income	61,071	57,083	77,599
Investment income	72,512	56,791	217,740
Net changes in fair value on financial assets at fair value through profit or loss	19,453	281,308	(28,419)
Other operating income	67,226	99,033	167,454
Total operating income	**2,873,344**	**5,317,277**	**8,313,657**
Interest expenses	(3,315)	(9,663)	(8,557)
Tax and surcharges	(13,639)	(29,975)	(45,453)
Administrative expenses	(1,801,024)	(3,103,056)	(4,914,955)
Impairment losses reversed (recognised) on financial assets	(2,086)	(9,213)	1,823
Total operating expenses	**(1,820,064)**	**(3,151,907)**	**(4,967,142)**
Profit before tax	**1,053,280**	**2,165,370**	**3,346,515**
Income tax expense	(249,959)	(516,876)	(781,841)
Profit for the year	**803,321**	**1,648,494**	**2,564,674**
Other comprehensive income/(expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	**1,791**	**(12,438)**	**(7,961)**
Total other comprehensive income/(expense) for the year	**1,791**	**(12,438)**	**(7,961)**
Total comprehensive income attributable to shareholders of the Company	**805,112**	**1,636,056**	**2,556,713**

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Foreign currency translation reserve	Statutory surplus reserve	Statutory general reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Balance at 1 January 2019	**520,000**	**2,000**	**702**	**76,788**	**1,484,798**	**1,302,918**	**3,387,206**
Profit for the year	–	–	–	–	–	803,321	803,321
Other comprehensive income for the year	–	–	1,791	–	–	–	1,791
Total comprehensive income	**–**	**–**	**1,791**	**–**	**–**	**803,321**	**805,112**
Appropriation to statutory surplus reserve	–	–	–	66,640	–	(66,640)	–
Appropriation to statutory general reserve	–	–	–	–	254,185	(254,185)	–
Dividend distribution	–	–	–	–	–	(260,000)	(260,000)
Balance at 31 December 2019	**520,000**	**2,000**	**2,493**	**143,428**	**1,738,983**	**1,525,414**	**3,932,318**
Balance at 1 January 2020	520,000	2,000	2,493	143,428	1,738,983	1,525,414	3,932,318
Profit for the year	–	–	–	–	–	1,648,494	1,648,494
Other comprehensive expense for the year	–	–	(12,438)	–	–	–	(12,438)
Total comprehensive (expense) income	**–**	**–**	**(12,438)**	**–**	**–**	**1,648,494**	**1,636,056**
Appropriation to statutory surplus reserve	–	–	–	74,576	–	(74,576)	–
Appropriation to statutory general reserve	–	–	–	–	423,066	(423,066)	–
Dividend distribution	–	–	–	–	–	(361,000)	(361,000)
Balance at 31 December 2020	**520,000**	**2,000**	**(9,945)**	**218,004**	**2,162,049**	**2,315,266**	**5,207,374**

	Share capital	Capital reserve	Foreign currency translation reserve	Statutory surplus reserve	Statutory general reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Balance at 1 January 2021	520,000	2,000	(9,945)	218,004	2,162,049	2,315,266	5,207,374
Profit for the year	–	–	–	–	–	2,564,674	2,564,674
Other comprehensive expense for the year	–	–	(7,961)	–	–	–	(7,961)
Total comprehensive (expense) income	**–**	**–**	**(7,961)**	**–**	**–**	**2,564,674**	**2,556,713**
Appropriation to statutory surplus reserve	–	–	–	149,580	–	(149,580)	–
Appropriation to statutory general reserve	–	–	–	–	721,113	(721,113)	–
Dividend distribution	–	–	–	–	–	(722,000)	(722,000)
Balance at 31 December 2021	**520,000**	**2,000**	**(17,906)**	**367,584**	**2,883,162**	**3,287,247**	**7,042,087**

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Operating activities			
Cash generated from operations	793,360	1,094,844	2,699,433
Tax paid	(212,750)	(355,284)	(801,103)
Net cash generated from operating activities	580,610	739,560	1,898,330
Investing activities			
Purchases of property and equipment, intangible assets	(43,123)	(42,982)	(55,998)
Proceeds from disposal of property and equipment	93	31	140
Net cash used in investing activities	(43,030)	(42,951)	(55,858)
Financing activities			
Interest paid	(3,315)	(9,663)	(8,557)
Repayment of lease liabilities	(10,665)	(36,290)	(39,538)
Dividends paid to shareholders	(260,000)	(361,000)	(722,000)
Net cash used in financing activities	(273,980)	(406,953)	(770,095)
Effect of exchange rate change	679	(1,680)	(4,478)
Net increase in cash and cash equivalents	264,279	287,976	1,067,899
Cash and cash equivalents at the beginning of the year	2,130,698	2,394,977	2,682,953
Cash and cash equivalents at the end of the year	2,394,977	2,682,953	3,750,852

NOTES TO THE UNAUDITED FINANCIAL INFORMATION OF THE DISPOSAL GROUP

1 GENERAL INFORMATION

Fullgoal Fund Management Co., Ltd. (the "**Disposal Entity**") and its subsidiaries (collectively, the "**Disposal Group**") are principally engaged in the asset management and fund management.

The Disposal Entity is a limited liability company incorporated in Beijing City, the People's Republic of China (the "**PRC**"). The address of its registered office is 27-30F, Century Link Tower 2, No.1196 Century Avenue, China (Shanghai) Pilot Free Trade Zone.

On 23 May 2022, the Company has entered into a transfer agreement with Shandong Financial Asset Management Co., Ltd. for the disposal of the 16.675% of equity interest of Disposal Group, at a consideration of approximately RMB4,038,818,000 (the "**Equity Transfer**"). Upon the completion of the Equity Transfer, the Company will not retain any equity interest in Fullgoal Fund Management Co., Ltd.

The Disposal Group is held by Bank of Montreal Ltd., Haitong Securities Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd., which owns 83.325% of the Disposal Entity's shares evenly. The remaining 16.675% of the shares are held by the Company.

The unaudited consolidated financial information are presented in Renminbi ("**RMB**") unless otherwise stated.

2 BASIS OF PREPARATION OF THE UNAUDITED FINANCIAL INFORMATION

The Unaudited Financial Information of the Disposal Group for the years ended 31 December 2019, 2020 and 2021 has been prepared solely for the purpose of inclusion in the circular to be issued by the Company, in connection with the Disposal in accordance with paragraph 14.68(2) (a) (i) of the Listing Rules.

The amounts included in the Unaudited Financial Information of the Disposal Group have been recognised and measured in accordance with the relevant accounting policies of the Company adopted in the preparation of the consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the relevant years, which conform with International Financial Reporting Standards (which include all International Financial Reporting Standards, International Accounting Standards and Interpretations) issued by the International Auditing and Assurance Standards Board (the "**IAASB**"). The Unaudited Financial Information of the Disposal Group has been prepared under the historical cost convention except for financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss that are measured at fair values.

The Unaudited Financial Information of the Disposal Group does not contain sufficient information to constitute a complete set of consolidated financial statements as defined in International Accounting Standard 1 Presentation of Financial Statements issued by the IAASB and should be read in connection with the relevant published annual reports of the Group for the Relevant Periods.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is an illustrative and unaudited pro forma financial information of the Group excluding the Fullgoal Fund Management Co., Ltd. ("**Disposal Entity**") and its subsidiaries (together, the "**Disposal Group**") and Ruiyuan No. 76 Debt upon the completion of the disposal of the equity interest on Disposal Entity and Ruiyuan No. 76 debt (the "**Disposal**") (the "**Remaining Group**") (the "**Unaudited Pro Forma Financial Information**"), comprising the unaudited pro forma consolidated statement of financial position as at 31 December 2021, and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021 of the Remaining Group which has been prepared to illustrate the effect of the Disposal (i) as if the Disposal had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of financial position, and (ii) as if the Disposal had been completed on 1 January 2021 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021.

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 31 December 2021 or any future date, and the financial performance and cash flows of the Remaining Group for the year ended 31 December 2021 or for any future period.

The unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of financial position as at 31 December 2021, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2021, which have been extracted from the published annual report of the Group for the year ended 31 December 2021, after making certain pro forma adjustments relating to the Disposal that are factually supportable and directly attributable to the Disposal as set out below.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in Appendix II to this circular, the published annual report of the Group for the year ended 31 December 2021, the historical financial information of the Disposal Group as set out in Appendix III to this circular, and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group as at 31 December 2021

	The Group as at 31 December 2021	Pro Forma Adjustments			The Remaining Group as at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2(a)(I))*	*(Note 2(a)(II))*	*(Note 2(b))*	
Non-current assets					
Property and equipment	121,933				121,933
Investment properties	141,374				141,374
Right-of-use assets	11,980				11,980
Intangible assets	24,318				24,318
Investments in associates	2,072,304	(1,174,603)			897,701
Financial assets at fair value through profit or loss	1,427,659				1,427,659
Loans to customers	8,214,294		(1,687,504)		6,526,790
Financial investments-amortised cost	887,634				887,634
Advance payments	15,434				15,434
Deferred income tax assets	617,708		(115,569)		502,139
Other non-current assets	18,331				18,331
Total non-current assets	13,552,969				10,575,293

	The Group as at 31 December 2021	Pro Forma Adjustments			The Remaining Group as at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2(a)(I))*	*(Note 2(a)(II))*	*(Note 2(b))*	
Current assets					
Cash and bank balance	1,586,596	4,035,578	999,277		6,621,451
Financial assets at fair value through profit or loss	1,736,800				1,736,800
Financial assets purchased under resale agreements	697,607				697,607
Loans to customers	1,172,586				1,172,586
Trustee's remuneration receivable	200,148				200,148
Advance payments	7,000				7,000
Other current assets	108,841				108,841
Total current assets	5,509,578				10,544,433
Total assets	19,062,547				21,119,726
Current liabilities					
Short-term borrowings	1,604,227				1,604,227
Lease liabilities	4,320				4,320
Salary and welfare payable	94,450				94,450
Net assets attributable to other beneficiaries of consolidated structured entities	4,717,136				4,717,136
Income tax payable	99,756	1,003,901	(403,192)		700,465
Other current liabilities	1,294,960	(69)	(9)		1,294,882
Total current liabilities	7,814,849				8,415,480
Net current (liabilities) assets	(2,305,271)				2,128,953
Total assets less current liabilities	11,247,698				12,704,246

	The Group as at 31 December 2021	Pro Forma Adjustments			The Remaining Group as at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2(a)(I))*	*(Note 2(a)(II))*	*(Note 2(b))*	
Non-current liabilities					
Salary and welfare payable	21,551				21,551
Lease liabilities	7,090				7,090
Net assets attributable to other beneficiaries of consolidated structured entities	567,839				567,839
Total non-current liabilities	596,480				596,480
Total liabilities	8,411,329				9,011,960
Equity					
Share capital	4,658,850				4,658,850
Capital reserve	143,285				143,285
Statutory surplus reserve	952,314			145,356	1,097,670
Statutory general reserve	1,141,068			145,356	1,286,424
Other reserves	(160)	2,985			2,825
Retained earnings	3,755,861	1,854,158	(400,595)	(290,712)	4,918,712
Total equity	10,651,218				12,107,766
Total equity and liabilities	19,062,547				21,119,726

Unaudited Pro Forma Consolidated Statement of Profit or Loss and other Comprehensive Income of the Remaining Group for the Year ended 31 December 2021

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Fee and commission income	829,727				829,727
Interest income	540,793				540,793
Net changes in fair value on financial assets at fair value through profit or loss and investment in associates measured at fair value	(206,893)				(206,893)
Investment income	272,877				272,877
Net gains on disposal of associates	333,949		3,167,323		3,501,272
Other operating income	8,243				8,243
Total operating income	1,778,696				4,946,019
Interest expenses	(552,096)				(552,096)
Staff costs (including directors and supervisors' emoluments)	(144,038)				(144,038)
Depreciation and amortisation	(16,490)				(16,490)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(151,455)				(151,455)
Tax and surcharges	(12,701)		(2,019)		(14,720)
Administrative expenses	(93,251)		(1,152)	(714)	(95,117)
Auditor's remuneration	(1,415)				(1,415)
Losses on disposal of loan to customer	–			(1,149,779)	(1,149,779)
Impairment losses on financial assets, net of reversal	(823,432)	462,275			(361,157)

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Total operating expenses	(1,794,878)				(2,486,267)
Operating (loss)/profit	(16,182)				2,459,752
Share of results of investments in associates accounted for using the equity accounting method	481,324	(426,487)			54,837
Profit before income tax	465,142				2,514,589
Income tax credit/(expense)	3,377		(1,003,901)	287,623	(712,901)
Net profit attributable to shareholders of the Company	468,519				1,801,688
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Share of other comprehensive income from investments in associates accounted for using the equity accounting method	7,575	1,314	1,671		10,560
Total other comprehensive income, net of tax	7,575				10,560
Total comprehensive income attributable to shareholders of the Company	476,094				1,812,248

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group for the Year ended 31 December 2021

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Cash flows from operating activities					
Profit before income tax	465,142	35,788	3,164,152	(1,150,493)	2,514,589
Adjustments for:					
Depreciation and amortisation	16,490				16,490
Impairment losses on financial assets	823,432	(462,275)			361,157
Net changes in fair value on financial assets at fair value through profit or loss and investments in associates measured at fair value	206,893				206,893
Change in net assets attributable to other beneficiaries of consolidated structured entities	151,455				151,455
Net gains on disposal of associates	(333,949)		(3,167,323)		(3,501,272)
Share of results of investments in associates accounted for using the equity accounting method	(481,324)	426,487			(54,837)
Interest expense	80,770				80,770
Dividend income from financial assets at fair value through profit or loss	(59,841)				(59,841)
Subtotal	869,068				(284,596)

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Net change in operating assets and operating liabilities:					
Increase in financial assets at fair value through profit or loss	(31,222)				(31,222)
Decrease in loans to customers	2,710,463			2,149,779	4,860,242
Increase in financial investments - amortised cost	(1,024,817)				(1,024,817)
Increase in financial assets purchased under resale agreements	(590,460)				(590,460)
Net decrease in net assets attributable to other beneficiaries of consolidated structured entities	(4,326,237)				(4,326,237)
Net decrease in other operating assets	344,074				344,074
Net increase in other operating liabilities	462,747		(69)	(9)	462,669
Cash used in operating activities before income tax	(1,586,384)				(590,347)
Income tax paid	(145,567)				(145,567)
Net cash used in operating activities	(1,731,951)				(735,914)

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Cash flows from investing activities					
Dividends received from investments in associates accounted for using the equity accounting method	130,099	(120,394)			9,705
Dividend from financial assets	59,841				59,841
Proceeds from disposal of property and equipment, intangible assets and other long-term assets	66				66
Purchase of property and equipment, intangible assets and other long-term assets	(21,524)				(21,524)
Purchase of financial assets at fair value through profit or loss	(108,200)				(108,200)
Proceeds from sales of financial assets at fair value through profit or loss	21,266				21,266
Proceeds from disposal of investments in associates	911,718		4,038,818		4,950,536
Acquisition of investments in associates	(65,233)				(65,233)
Net cash generated from investing activities	928,033				4,846,457

	The Group for the year ended 31 December 2021	Pro Forma adjustments			The Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3(a))*	*(Note 3(b)(I))*	*(Note 3(b)(II))*	
Cash flows from financing activities					
Proceeds from short-term loans	1,600,000				1,600,000
Repayment of short-term loans	(100,000)				(100,000)
Interest expense paid	(76,543)				(76,543)
Repayment of lease liabilities	(2,296)				(2,296)
Net cash generated from financing activities	1,421,161				1,421,161
Effect of exchange rate changes on cash and cash equivalents	(182)				(182)
Net increase in cash and cash equivalents	617,061				5,531,522
Cash and cash equivalents at the beginning of the year	969,535				969,535
Cash and cash equivalents at the end of the year	1,586,596				6,501,057

Notes:

1. The financial information of the Group is extracted from the audited consolidated statement of financial position of the Group as at 31 December 2021 as set out in the Company's published annual report for the year ended 31 December 2021.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated financial position, assuming the Disposal had taken place on 31 December 2021:

   a) The adjustments represent the estimated gain (loss) on disposal assuming the Disposal had taken place on 31 December 2021 and is calculated as follows:

I. Investment in Disposal Group

	Notes	*RMB'000*
Consideration	*(i)*	4,038,818
Less: carrying value of the investment in Disposal Group as at 31 December 2021	*(ii)*	(1,174,603)
Less: release of accumulated other reserve	*(iii)*	(2,985)
Estimated gain on disposal before transaction costs and taxes and income tax expense		2,861,230
Less: estimated transaction costs and taxes attributable to the disposal	*(iv)*	(3,171)
Less: income tax expense regarding disposal	*(v)*	(1,003,901)
Estimated gain on disposal		1,854,158

Notes:

(i) Pursuant to the Equity Transfer Agreement, the consideration of Equity Transfer of RMB4,038,818,000 shall be settled in cash on completion of the Equity Transfer.

(ii) The carrying amount of investment in Disposal Group is extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2021.

(iii) The amount represents the accumulated other reserve of the Disposal Group attributable to the Group as at 31 December 2021.

(iv) The estimated legal and professional expenses and taxes directly incurred for the Equity Transfer amounting to RMB3,171,000 (net of VAT of RMB69,000) will be borne by the Group and are assumed to be settled in cash.

(v) The amount represents the estimated corporate income tax expense to the PRC tax authority in relation to the gain on the Equity Transfer, which is calculated based on a tax rate of 25%.

(vi) The actual amounts of the income tax expense and the gain on the Equity Transfer recorded in "Retained earnings" can only be determined at completion of Equity Transfer and after the tax clearance from the PRC tax authorities for income tax expense, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

II. Ruiyuan No.76 Debt

	Notes	*RMB'000*
Consideration	*(i)*	1,000,000
Less: Ruiyuan No.76 Debt	*(ii)*	(1,687,504)
Estimated loss on disposal before transaction costs and taxes and income tax expense		(687,504)
Less: estimated transaction costs and taxes attributable to the disposal	*(iii)*	(714)
Add: income tax credit regarding disposal	*(iv)*	287,623
Estimated loss on disposal		(400,595)

Notes:

(i) Pursuant to the Debt Transfer Agreement, the consideration of Debt Transfer of RMB1,000,000,000 shall be settled in cash on completion of Debt Transfer.

(ii) The carrying amount of Ruiyuan No.76 Debt is extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2021.

(iii) The estimated legal and professional expenses and taxes directly incurred for the Debt Transfer amounting to RMB714,000 (net of VAT of RMB9,000) will be borne by the Group and are assumed to be settled in cash.

(iv) The amount represents the estimated corporate income tax credit to PRC tax authority in relation to the loss on the Debt Transfer, which is calculated based on a tax rate of 25%.

(v) The actual amounts of the income tax credit and the loss on the Debt Transfer recorded in "Retained earnings"' can only be determined at completion of Debt Transfer and after the tax clearance from the PRC tax authorities for income tax credit, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

b) The amounts represents the transfer of 10% of the estimated profit on Disposal to each statutory surplus reserve and statutory general reserve in accordance to the relevant PRC regulation.

c) Apart from above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2021 for the purpose of preparation of the unaudited pro forma consolidated statement of financial position of the Remaining Group.

3. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows, assuming the Disposal had taken place on 1 January 2021:

a) The adjustments represent the exclusion of the share of post-tax profit and dividend received from the Disposal Group and impairment loss on Ruiyuan No. 76 Debt for the year ended 31 December 2021, assuming the Disposal had taken place on 1 January 2021. The amounts are extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2021.

b) The adjustments represent the estimated gain (loss) on disposal assuming the Disposal had taken place on 1 January 2021 and is calculated as follows:

I. Investment in Disposal Group

	Notes	*RMB'000*
Consideration	*(i)*	4,038,818
Less: carrying value of the investment in Disposal Group as at 1 January 2021	*(ii)*	(869,824)
Less: release of accumulated other reserve	*(iii)*	(1,671)
Estimated gain on disposal before transaction costs and taxes and income tax expense		3,167,323
Less: estimated transaction costs and taxes attributable to the disposal	*(iv)*	(3,171)
Less: income tax expense regarding disposal	*(v)*	(1,003,901)
Estimated gain on disposal		2,160,251

Notes:

(i) Pursuant to the Equity Transfer Agreement, the consideration of Equity Transfer of RMB4,038,818,000 shall be settled by cash on completion of Equity Transfer.

(ii) The carrying amount of investment in Disposal Group is extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2020.

(iii) The amount represents the accumulated other reserve of the Disposal Group attributable to the Group as at 31 December 2020.

(iv) The estimated legal and professional expenses and taxes directly incurred for the Equity Transfer amounting to RMB3,171,000 (net of VAT of RMB 69,000) will be borne by the Group and are assumed to be settled in cash.

(v) The amount represents the estimated corporate income tax expense to PRC tax authority in relation to the gain on the Equity Transfer, which is calculated based on a tax rate of 25%.

(vi) The actual amounts of the income tax expense and the gain on the Equity Transfer recorded in "Retained earnings" can only be determined at completion of Equity Transfer and after the tax clearance from the PRC tax authorities for income tax expense, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

II. Ruiyuan No.76 Debt

	Notes	*RMB'000*
Consideration	*(i)*	1,000,000
Less: Ruiyuan No. 76 Debt	*(ii)*	(2,149,779)
Estimated loss on disposal before transaction costs and taxes and income tax expense		(1,149,779)
Less: estimated transaction costs and taxes attributable to the disposal	*(iii)*	(714)
Add: income tax credit regarding disposal	*(iv)*	287,623
Estimated loss on disposal		(862,870)

Notes:

(i) Pursuant to the Debt Transfer Agreement, the consideration of Debt Transfer of RMB1,000,000,000 shall be settled in cash on completion of Debt Transfer.

(ii) The carrying amount of Ruiyuan No. 76 Debt (excluding the impairment loss recognised during the year ended 31 December 2021) is extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2021.

(iii) The estimated legal and professional expenses and taxes directly incurred for the Debt Transfer amounting to RMB714,000 (net of VAT of RMB9,000) will be borne by the Group and are assumed to be settled in cash.

(iv) The amount represents the estimated corporate income tax credit to PRC tax authority in relation to the loss on the Debt Transfer, which is calculated based on a tax rate of 25%.

(v) The actual amounts of the income tax credit and the loss on the Debt Transfer recorded in "Retained earnings" can only be determined at completion of Debt Transfer and after the tax clearance from the PRC tax authorities for income tax credit, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

c) Apart from above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2021 for the purpose of preparation of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.

d) Other than the adjustments relating to the exclusion of the results and cash flows of the Disposal Group and Ruiyuan No.76 Debt for the year ended 31 December 2021 as mentioned in Note 3(a), the above adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Remaining Group.

The Directors

Shandong International Trust Co., Ltd.
No. 166 Jiefang Road, Lixia District
Jinan, Shandong Province
PRC

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shandong International Trust Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2021, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021, and related notes as set out on pages 87 to 100 of the investment circular in connection with disposal of equity interests in Fullgoal Fund Management Co., Ltd. and Ruiyuan No.76 debt issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Note 1 to 3.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the disposal of equity interest in Fullgoal Fund Management Co., Ltd. and Ruiyuan No.76 debt (the "**Disposal**") on the Group's financial position as at 31 December 2021 and the Group's financial performance and cash flows for the year ended 31 December 2021 as if the Disposal had taken place at 31 December 2021 and 1 January 2021 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors of the Company from the Group's financial statement for the year ended 31 December 2021, on which an audit report has been published.

Directors' Responsibility for the Unaudited pro forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the International Auditing and Assurance Standards Board ("**IAASB**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the IAASB. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Disposal on unadjusted financial information of the Group as if the Disposal had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Disposal at 31 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA LIMITED
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
30 June 2022

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. Unless otherwise defined, terms used herein shall have the same meanings as those described in the 2019 annual report, 2020 annual report and 2021 annual 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 RMB528.4 million, representing a year-on-year decrease of 30.0%, 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, other operating income and share of results of investments in associates accounted for using the equity accounting method, 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 55.5% and 44.5% 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 RMB835.1 million from its proprietary business in 2019, representing a year-on-year increase of 9.0%, 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 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 reverse repurchase of treasury bonds in 2019 and the funds deposited in overseas banks as compared with the same period last year.

Securities Investments

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

The 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 0.8% and 0% for the years ended 31 December 2018 and 31 December 2019, respectively. The decrease in average return on long-term equity investments in 2019 as compared to that of 2018 was primarily due to no 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 RMB528.4 million, which decreased by RMB226.9 million as compared to the corresponding period of last year, representing a decrease of 30.0%.

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 agreements to resell decreased by 50.2% from RMB17.9 million in 2018 to RMB8.9 million in 2019, primarily due to the decrease in the Company's average investment amount of government bonds under reverse repurchase agreements in 2019 as compared to the same period last year.

(3) The Group's interest income from cash and bank deposits balance decreased by 59.1% from RMB11.7 million 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 RMB15.2 million in 2018 to the loss of RMB11.8 million in 2019.

Operating Profit before Income Tax and Operating Margin

The Group's operating profit before income tax decreased by 26.5% from RMB1,009.9 million in 2018 to RMB742.3 million in 2019, and the Group's operating profit margin decreased from 59.6% in 2018 to 39.3% 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 30.0% from RMB755.3 million in 2018 to RMB528.4 million in 2019. The Group's net profit margin decreased from 44.6% in 2018 to 28.0% 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 the agreements to resell, interest income from contributions to the Trust Industry Protection Fund, net changes in fair value of the financial assets at FVPL and investment in associates measured at fair value, investment income and share of 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 the gains of RMB286.8 million in 2018 to the loss of RMB29.3 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.

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.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from 37.4% in 2018 to -3.5% 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 RMB13,065.8 million and RMB13,934.3 million, respectively, of which the total assets of the Company amounted to RMB10,430.0 million and RMB10,562.6 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 56.0%, 15.2%, 0.6%, 10.9%, 6.9% 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 by 37.3% from RMB1,542.8 million as at 31 December 2018 to RMB2,118.3 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 the Agreements to Resell

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

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

Advance Payments

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

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the 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 fulfill 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 RMB7.292 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.954 billion; the ratio of net capital to total risk-based capital was 184.42%, which is not lower than 100%; and the ratio of net capital to net asset was 79.93%, 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 RMB354.4 million, representing a year-on-year decrease of 32.9%, due to 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, which was partially offset by 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. In 2020, the income from the trust business and proprietary business of the Group accounted for 48.1% and 51.9% 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 reverse repurchase of government bonds, investment in monetary fund and cash management trust schemes were actively carried out to improve utilisation efficiency of domestic and overseas capitals. Fifthly, the Company further strengthened exchanges and communication with financial enterprises in Hong Kong, and laid a solid foundation for overseas businesses. The Company recorded the segment income of RMB1,246.0 million from its proprietary business in 2020, representing a year-on-year increase of 49.2%, 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 the loss of RMB11.8 million in 2019 to the gains of RMB95.4 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 are partially offset by a decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB300.0 million in the 2019 to RMB126.6 million in 2020.

Allocation of Proprietary Assets

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

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 7.6% from RMB5,730.7 million in 2019 to RMB5,297.7 million in 2020; and the average balance of the Company's investments in asset management products decreased by 10.0% from RMB153.8 million in 2019 to RMB138.4 million in 2020.

Long-Term Equity Investments

The Company made strategic long-term investments in a number of financial institutions, which helped the Company establish stronger business relationships with these financial institutions and created synergies for its business operations.

The 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 0% and 0.7% 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 Management Co., Ltd. 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 RMB354.4 million, which decreased by RMB174.0 million as compared to the corresponding period of last year, representing a decrease of 32.9%.

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

Staff Costs (including Directors and Supervisors' Emoluments)

The 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 micro 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 from the loss of RMB11.8 million in 2019 to the gains of RMB95.4 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 38.1% from RMB742.3 million in 2019 to RMB459.5 million in 2020, and the Group's operating profit margin decreased from 39.3% in 2019 to 19.9% 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 decreased by 32.9% from RMB528.4 million in 2019 to RMB354.4 million in 2020. The Group's net profit margin decreased from 28.0% in 2019 to 15.4% 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 loss before income tax for the Group's proprietary business increase from a loss of RMB29.3 million in 2019 to a loss of RMB480.1 million in 2020, primarily due to an increase of 99.7% in the segment operating expenses from the proprietary business from RMB864.4 million in 2019 to RMB1,726.0 million in 2020, partially offset by the increase of 49.2% in the segment operating income from the proprietary business from RMB835.1 million in 2019 to RMB1,246.0 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 RMB620.5 million in 2020; (ii) an increase in the impairment losses on financial assets from RMB688.1 million in 2019 to RMB1,058.8 million in 2020.

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 the loss of RMB11.8 million in 2019 to the gains of RMB95.4 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 are partially offset by the decrease in net changes in fair value on financial assets at FVPL and investment in associates measured at fair value from RMB300.0 million in 2019 to RMB126.6 million in 2020.

As a result of the foregoing, the segment margin of the Group's proprietary business decreased from -3.5% in 2019 to -38.5% 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 RMB13,934.3 million and RMB19,834.0 million, respectively, of which the total assets of the Company amounted to RMB10,562.6million and RMB10,124.7 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 64.3%, 12.0%, 0.3%, 11.3%, 4.9%, 0.8% and 0.5%, 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 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 453.7% from RMB1,563.5 million as at 31 December 2019 to RMB8,657.3 million as at 31 December 2020. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions) for such loans outstanding as at 31 December 2019 and 31 December 2020 were RMB742.5 million and RMB7,282.4 million, respectively. The Group determined the provision for impairment losses on those loans through expected credit losses assessments and made allowance for impairment of RMB1,083.5 million and RMB1,422.6 million for these impaired loans as at 31 December 2019 and 31 December 2020, respectively, representing 69.3% and 16.4% of the gross amount of those loans, respectively. The impairment allowances provided by the Group were provided in accordance with the provisions under IFRS 9 "Financial Instruments". Such impairment allowances were measured by the difference between the carrying amount of those impaired loans and the present value of estimated future cash flows of those loans, and in particular, the disposal proceeds after deduction of expenses attributable to such disposals as at each of the respective balance sheet dates. The gross amount of such impaired loans represented 17.3% and 60.8% of the Group's gross loans to customers as at 31 December 2019 and 31 December 2020, respectively.

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

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 12.0% from RMB2,118.3 million as at 31 December 2019 to RMB2,373.0 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 the Agreements to Resell

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

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

Contribution to Trust Industry Protection Fund Due from Counterparty Clients

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 RMB10,508.7 million, respectively. As a trust company in the PRC, the Company is not allowed to incur any debt in operating its business other than through inter-bank borrowings or otherwise allowed by the CBIRC. The Group's major liabilities during the 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 90.0%, 1.0%, 1.0% and 8.0% of the Group's total liabilities, respectively.

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

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

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

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 fulfill 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.

During the year ended 31 December 2020, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserve and financial assets that could be readily convertible into cash. As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804 million. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future.

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 RMB7.831 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.600 billion; the ratio of net capital to total risk-based capital was 217.55%, which is not lower than 100%; and the ratio of net capital to net asset was 84.80%, which is not lower than 40%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB2,804.1 million, of which the current assets were RMB6,262.9 million, and the current liabilities were RMB9,067.0 million. As at 31 December 2020, the Group had a total cash and balance of bank deposit of RMB969.5 million. As at 31 December 2020, the Group's current liabilities included net assets attributable to other beneficiaries of consolidated structured entities of RMB8,042.3 million. In view of the position of net current liabilities, the Directors considered the Group's future liquidity and performance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient financial resources to adequately meet its working capital requirements in the foreseeable future and to meet its financial obligations as and when they fall due.

FOR THE YEAR ENDED 31 DECEMBER 2021

BUSINESS OVERVIEW

In 2021, the Group achieved operating income with an amount of RMB1,778.7 million, representing a year-on-year decrease of 22.9%; net profit attributable to shareholders of the Company was RMB504.3 million, representing a year-on year increase of 42.3%, mainly due to the year-on-year increase in investment income, net gains on disposal of associates and the year-on-year decrease of impairment losses on financial assets, net of reversal, which are partially offset 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. In 2021, the income from the trust business and proprietary business of the Group accounted for 45.3% and 54.7% 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 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 totaling 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 RMB1,002.7 million from its proprietary business in 2021, representing a year-on-year decrease of 19.5%, mainly due to (i) a decrease in interest income from RMB714.0 million in 2020 to RMB539.7 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 are 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.

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 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 3.1% from RMB5,297.7 million in 2020 to RMB5,134.4 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 0.7% and 1.3% 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 2021, there was no outstanding balance of the Company's proprietary loans (as at 31 December 2020: RMB994.0 million).

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 RMB504.3 million, which increased by RMB149.9 million as compared to the corresponding period of last year, representing an increase of 42.3%.

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 RMB540.8 million, representing a decrease of 24.5% 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 25.3% from RMB695.9 million in 2020 to RMB519.7 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 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 RMB552.1 million, representing a decrease of 11.0% as compared to RMB620.5 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 65.9% from RMB1,058.8 million in 2020 to RMB361.2 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 micro 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 decreased by 42.5% from RMB95.4 million in 2020 to RMB54.8 million in 2021, primarily due to the decrease in the net profit of certain investees.

Profit before Income Tax and Operating Margin

The Group's profit before income tax increased by 9.0% from RMB459.5 million in 2020 to RMB500.9 million in 2021, and the Group's operating profit margin increased from 19.9% in 2020 to 28.2% in 2021.

Income Tax Credit/(Expense)

The Group'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 increased by 42.3% from RMB354.4 million in 2020 to RMB504.3 million in 2021. The Group's net profit margin increased from 15.4% in 2020 to 28.4% in 2021.

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 RMB480.1 million of loss in 2020 to RMB81.0 million of loss in 2021, primarily due to a decrease of 37.2% in the segment operating expenses from the proprietary business from RMB1,726.0 million in 2020 to RMB1,083.7 million in 2021, partially offset by the decrease of 19.5% in the segment income from the proprietary business from RMB1,246.0 million in 2020 to RMB1,002.7 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 RMB361.2 million in 2021, which are 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 RMB539.7 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 are 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.

As a result of the foregoing, the segment margin of the Group's proprietary business increased from -38.5% in 2020 to -8.1% 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 RMB19,834.0 million and RMB18,254.7 million, respectively, of which the total assets of the Company amounted to RMB10,124.7 million and RMB13,463.5 million, respectively. The Group's major assets consist of (i) loans to customers, (ii) investments in associates, (iii) financial investments – amortised cost, (iv) financial assets at FVPL, (v) cash and bank balances, (vi) trustee's remuneration receivable, and (vii) financial assets purchased under resale agreements. As at 31 December 2021, the above-mentioned major assets accounted for 42.2%, 4.9%, 4.9%, 17.3%, 8.7%, 1.1% and 3.8% 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 Company's financial statements were identified as impaired during the year ended 31 December 2021. The gross amount of such impaired loans decreased by 10.0% from RMB8,657.3 million as at 31 December 2020 to RMB7,789.2 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 RMB7,282.4 million and RMB6,258.6 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 RMB1,673.7 million for these impaired loans as at 31 December 2020 and 31 December 2021, respectively, representing 16.4% and 21.5% 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 60.8% and 82.9% 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 62.2% from RMB2,373.0 million as at 31 December 2020 to RMB897.7 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 the Agreements to Resell

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

The Group's government bond purchased under reverse repurchase agreements to resell increased by 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 bond purchased under reverse repurchase 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 RMB10,508.7 million and RMB8,295.8 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 63.7%, 19.3%, 1.4% and 15.6% 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 44.1% from RMB9,459.8 million as at 31 December 2020 to RMB5,285.0 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 fulfill 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.

During the year ended 31 December 2021, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserve and financial assets that could be readily convertible into cash. As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB2,189.7 million. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient working capital to maintain operations for the 12-month period following 31 December 2021 and repay its debts as they fall due.

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 RMB7.900 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.207 billion; the ratio of net capital to total risk-based capital was 246.00%, which is not lower than 100%; and the ratio of net capital to net asset was 79.79%, which is not lower than 40%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB2,189.7 million, of which the current assets were RMB5,509.6 million, the current liabilities were RMB7,699.3 million. As at 31 December 2021, the Group had a total cash and balance of bank deposit of RMB1,586.6 million. As at 31 December 2021, the Group's current liabilities included net assets attributable to other beneficiaries of consolidated structured entities of RMB4,717.1 million.

In view of the position of net current liabilities, the Directors have considered the Group's future liquidity and performance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and sources of finance, the Directors consider that the Group will have sufficient working capitals in the foreseeable future to maintain its operation and pay off its debts as and when they fall due during the 12-month period after 31 December 2021.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2019, 31 December 2020 and 31 December 2021, the Company had a total of 229, 235 and 350 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 II – Financial Information of the Group" to this circular.

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 Venture Capital Co., Ltd.(3)	Domestic Shares	Beneficial owner	125,000,000	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)
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%
		Interest in a controlled corporation	225,000,000	6.44%	4.83%
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	2,467,202,580	25.00%	18.75%
CNPC Capital Company Limited(5)	Domestic Shares	Interest in a controlled corporation	2,467,202,580	25.00%	18.75%
CNPC Capital Joint Stock Company with Limited Liability(5)	Domestic Shares	Interest in a controlled corporation	2,467,202,580	25.00%	18.75%
China National Petroleum Corporation(5)	Domestic Shares	Interest in a controlled corporation	2,467,202,580	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%

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

(4) Lucion Group is owned as to 90% by Shandong Provincial Finance Bureau and as to 10% by Shandong Caixin, and Shandong Caixin 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) As at the Latest Practicable Date, Jinan Finance Holding is wholly owned by State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government ("**Jinan SASAC**") and Jinan SASAC is therefore deemed to be interested in all of the shares of the Company held by Jinan Finance Holding. Since 14 February 2022, Jinan Finance Holding has been directly held by Jinan Finance Bureau. To the knowledge of the Company, the number of shares reflected the interests of Jinan Finance Holding and Jinan SASAC as at 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 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

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any asset which had been, since 31 December 2021 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are 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.

EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice contained in this circular:

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
SHINEWING (HK) CPA Limited	Certified Public Accountants
China United Assets Appraisal Group Shandong Co. Ltd. (中聯資產評估集團山東有限公司)	Independent valuer

Each of Gram Capital, SHINEWING (HK) CPA Limited and China United Assets Appraisal Group Shandong Co. Ltd. (collectively the "**Experts**") has given and has not withdrawn its written consent to the issue of this circular with the inclusion of, where applicable, its letter(s) of advices and/or report(s) and/or references to its name in the form and context in which they respectively appear.

Each of the Experts 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, none of the Experts 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.

MATERIAL CONTRACTS

The following contracts (not being contract entered into in the ordinary course of business) have been entered into by the Company within the two years immediately preceding the date of this circular, and are or may be material:

(a) the Equity Transfer Agreement;

(b) the Debt Transfer Agreement;

(c) the supplemental agreement to the Equity Transfer Agreement; and

(d) the supplemental agreement to the Debt Transfer Agreement.

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 annual reports of the Company for the financial years ended 31 December 2019, 2020 and 2021;

(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 report from SHINEWING (HK) CPA Limited on the unaudited financial information of Fullgoal Fund, the text of which is set out in Appendix III to this circular;

(e) the report from SHINEWING (HK) CPA Limited on the Unaudited Pro Forma Financial Information of the Remaining Group, the text of which is set out in Appendix IV to this circular;

(f) the valuation report of the Equity Interest in Fullgoal Fund prepared by the Independent Valuer, the text of which are set out in Appendix I to this circular;

(g) the written consents given by the Experts as referred to in the section headed "Experts and Consents" in this appendix;

(h) the material contracts referred to in the section headed "Material Contracts" in this appendix; and

(i) 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 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 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the second extraordinary general meeting of Shandong International Trust Co., Ltd. (the "**Company**") for the year 2022 (the "**EGM**") will be held at Room 1204, Lucion Building, No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC on Friday, 15 July 2022 at 10:00 a.m. to consider and, if thought fit, to pass the following resolution. Unless the content otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company date 30 June 2022.

ORDINARY RESOLUTION

"**THAT**

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

(b) any one or more directors of the Company 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 Agreements and completing the transaction contemplated thereunder."

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

Jinan, the People's Republic of China
30 June 2022

Notes:

1. The holders of H shares and domestic shares whose names appear on the registers of the members of the Company on Friday, 15 July 2022 are entitled to attend and vote at the EGM. The registers of members of the Company will be closed from Tuesday, 12 July 2022 to Friday, 15 July 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 Company's registered office at No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, the PRC (for holders of domestic shares) not later than 4:30 p.m. on Monday, 11 July 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 address of the registered PRC office 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 10:00 a.m. on Thursday, 14 July 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 address of the registered PRC office 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 resolution to be considered and approved at the EGM are set out in the circular of the Company in respect of the EGM dated 30 June 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 registered office and principal place of business of the Company is:

No. 166 Jiefang Road
Lixia District, Jinan
Shandong Province, 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. Ding Huiping and Ms. Meng Rujing as independent non-executive Directors.