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LUCION

Shandong International Trust Co., Ltd.

山東省國際信託股份有限公司

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

(Stock Code: 1697)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board of directors (the “**Board**” or “**Board of Directors**”) of Shandong International Trust Co., Ltd. (the “**Company**” or the “**SITC**”) is pleased to announce the audited consolidated annual results of the Company for the year ended 31 December 2023 (the “**Reporting Period**”). The content of this annual results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to preliminary announcements of annual results and the PRC Accounting Standards for Business Enterprises (“**CASBE**”). Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board (the “**Audit Committee**”). Unless otherwise stated, financial data of the Company are presented in Renminbi.

In this annual results announcement, the “Group” refers to the Company and the trust schemes included in the consolidated financial statements of the Company (i.e. the trust schemes controlled by the Company). Where there is any inconsistency between the Chinese version and the English version of this annual results announcement, the Chinese version shall prevail.

1. BASIC CORPORATE INFORMATION

1.1 Basic Information

Legal name in Chinese Abbreviation	山東省國際信託股份有限公司 山東國信
Legal name in English Abbreviation	Shandong International Trust Co., Ltd. SITC
Legal representative	Yue Zengguang (岳增光)
Authorised representatives	Yue Zengguang (岳增光) He Chuangye (賀創業)
Listing exchange of H shares Stock name Stock code	The Stock Exchange of Hong Kong Limited SDITC 1697

1.2 Contact Person and Contact Details

Secretary to the Board	He Chuangye (賀創業)
Company Secretary	He Chuangye (賀創業)
Registered office	Partial area of 1/F, 2/F and 13/F 32-35/F and 40/F, Tower A No. 2788 Aoti West Road, Lixia District Jinan, Shandong Province PRC
Postal code	250101
E-mail address	ir1697@luxin.cn
Internet website	http://www.sitic.com.cn
Principal place of business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong

2. SUMMARY OF FINANCIAL DATA

2.1 Summary of Consolidated Income Statement

Item	Note	Year ended 31 December	
		2023	2022
		<i>(RMB in thousands)</i>	
I. Total operating income		1,190,457	1,508,706
Net Interest Income	10	100,235	-76,621
Including: Interest income	10	192,203	62,741
Interest expense	10	91,968	139,362
Net fee and commission income	11	766,122	981,743
Including: Fee and commission income	11	771,125	990,286
Fee and commission expenses	11	5,003	8,543
Investment income	12	72,373	520,345
Including: Income from investment in associates and joint ventures		10,193	176,985
Gains from changes in fair value	13	212,740	40,218
Gains from changes in net assets attributable to third-party investors in consolidated structured entities		26,263	35,053
Other operating income		12,677	7,795
Gains on disposal of assets		47	173
II. Total operating costs		781,110	915,974
III. Operating profit		409,347	592,732
Add: Non-operating income		2,935	621
Less: Non-operating expenses	17	122,132	2,119
IV. Total profit		290,150	591,234
Less: Income tax expenses	18	131,517	310,805
V. Net profit		158,633	280,429
VI. Total comprehensive income		155,110	278,858
Total comprehensive income attributable to shareholders of the parent company		155,110	278,858

Note: In this results announcement, losses and income tax credits are indicated in “-” unless otherwise stated.

2.2 Summary of Consolidated Balance Sheet

Item	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Total assets	14,168,884	14,458,132
Total liabilities	3,079,506	3,523,864
Total shareholders' equity	11,089,378	10,934,268
Total liabilities and shareholders' equity	14,168,884	14,458,132

2.3 Summary of Consolidated Statement of Cash Flows

Item	Year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Net cash flows from operating activities	-1,329,022	-3,725,015
Net cash flows from investing activities	375,434	4,122,748
Net cash flows from financing activities	-1,118,105	256,262
Net increase in cash and cash equivalents	-2,071,693	653,995
Add: Balance of cash and cash equivalents at the beginning of the period	2,240,590	1,586,595
Balance of cash and cash equivalents at the end of the period	168,897	2,240,590

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment Review

Since the beginning of 2023, the global economy has shown a recovery trend, but the growth prospects have diverged, and the global economy has generally faced challenges such as “high inflation, high interest rates and high debts”. The inflation pressure of major developed economies has generally eased but remained sticky; policy interest rates have remained high for a long time, geopolitical conflicts have intensified, and the spillover risk has brought significant challenges to the global economic growth. In the face of the complex and severe international environment and the arduous and onerous tasks of domestic reform, development and stability, China has comprehensively deepened reform and opening up, strengthened macro-control, focused on expanding domestic demand, optimising structure, boosting confidence, and preventing and resolving risks. Thanks to an economic pickup, China has come a long way in the work on a modern industrial system. Furthermore, China has achieved new breakthroughs in scientific and technological innovation, consolidated the foundation of safe development, effectively guaranteed people’s livelihood, and solidly promoted high-quality development, taking solid steps to build a modern socialist country in an all-round way.

China’s financial industry fully implemented the guiding principles of the 20th CPC National Congress, deeply grasped the political and people-oriented nature of financial work, took deepening the financial supply-side structural reform as the main line, strengthened high-quality financial services, better supported the expansion of domestic demand, promoted stable foreign investment and stable foreign trade, strengthened precise support for key areas such as scientific and technological innovation, advanced manufacturing and green development, guided more funds to private small and micro enterprises, rural revitalisation and other weaker segments, worked to support the stable and sound development of the real estate market, and provided high-quality services for economic and social development.

China's trust industry is ushering in a transformation never seen before. The implementation of the new regulations on three categories of trust business comprehensively guided trust companies to reshape their business models. The supervisory department was established by the asset management institutions to gradually tighten the regulatory standards and create a fairer room for development. Trust companies continued to promote the optimisation of business structure, took multiple measures to resolve risks, continuously consolidated capital strength, and further improved the ability to serve high-quality economic development and people a better life. As at the end of the third quarter of 2023, the balance of trust assets managed by China's trust industry was RMB22.64 trillion. The size of assets under management has steadily rebounded. The asset structure and capital investment direction and application methods have been continuously optimised. The size of the standard product business has grown rapidly. The entrusted service capacity has been continuously enhanced. The ability to serve the real economy and society and people's livelihood has been continuously strengthened. The direction of transformation has become clearer.

3.2 Business Overview

In 2023, in the face of the complex and severe domestic and international environment, SITC forged ahead under pressure and kept marching forward. Guided by regulatory guidelines and based on strategic transformation, the Group actively responded to the impact of factors beyond expectations, efficiently coordinated business development and risk resolution, generally maintained a good trend of steady improvement and quality improvement, and made new achievements in various tasks.

Firstly, the Company concentrated on returning to its origin and presented a new situation in business transformation. In line with the regulatory guidance, the Company steadily promoted the original business adhering to the positioning of trustee as a key business for strategic transformation. The Company accelerated the development of the capital market business, achieved promising results in channel expansion, deepened cooperation with a number of wealth management subsidiaries of banks and securities companies, and built an all-round interbank cooperation system. The Company continued to strengthen its active management capability. The performance of fixed income products continued to outperform its market peers. The annualised rate of return of the Taishanbao project was approximately 3.25%, surpassing the CSI Monetary Fund Index by 137 bps. The annualised growth rate of the net asset value of Shandong Construction and Development Fund was approximately 5.04%, surpassing the medium and long-term pure debt fund index by 182 bps. Taishanbao project was once again awarded the “Golden Bull Award of the Trust Industry for One-year Fixed Income Products”, an authoritative award for standard products in the trust industry. Its management capability was recognised by the industry. The family trust business further consolidated its dominant position in the industry. As at the end of 2023, the size of trust assets under management increased by 47% year-on-year. While deepening channel cooperation, the Company actively developed independent innovation business, established the first family service trust in the industry after the promulgation of the new regulations on three categories of trusts, and pioneered the family trusts of “Canada Tax Residents Family Trust with Income Principal Model” and “Foreign Grantor Trust + Listed Company Stocks” in the industry, continuously making new breakthroughs in business innovation. Charitable trusts expanded in an orderly manner. During the year, the Company established 20 new charitable trusts, and as at the end of the year, the cumulative amount of funds delivered was RMB136 million. The Company actively gave full play to the advantages of trusts to help rural revitalisation, and the “Guozi Huinong Charitable Trust” won the “Shandong Charitable Award”, which was positively recognised by the civil affairs department.

Secondly, the Company focused on business innovation and cultivated new advantages of differentiated competition. The Company has formulated plans to vigorously promote the transformation of traditional businesses and the development of innovative businesses, and to deeply explore new business growth points. The transformation of wealth management was solidly promoted. The Company accelerated the transformation from the sales of traditional non-standard products to that of standard products, and the size of annual sales of standard products accounted for 47.13% of the total size of independent issuance, providing a good guarantee for business development from the capital side. Focusing on the improvement in asset allocation capabilities, the Company promoted the transformation to wealth management services based on “customer accounts”. As at the end of 2023, 41 special wealth management accounts were set up to accumulate core customers and expand long-term profit growth points. The Company explored and promoted the pre-paid fund service trusts, launched the “Shandong An Xin Fu” system, and secured a number of merchants. The project on the “Research on the Use of Trust Tools to Participate in Prepayment Social Fund Management” was awarded the “First Prize of Key Projects of Banking Financial Institutions in Shandong Province in 2022”. The Company implemented two risk disposal service trusts, based on internal collaborative resources, to provide solutions for enterprise asset risk isolation and efficient risk disposal.

Thirdly, the Company focused on green synergy and served the real economy to show a new style. The green trust achieved fruitful results. In 2023, the new green trust business was RMB1.217 billion. As at the end of 2023, the existing size of green trust assets was RMB2.83 billion, of which the size of the green trust business was RMB1.559 billion and the size of green bond investment was RMB1.271 billion. A cross-departmental green trust research team has been established to gather and strengthen research collaboration, achievement sharing and project implementation. As the first green certified CCER carbon asset income rights green trust in China, “Carbon Neutrality-Carbon Asset Investment” was awarded as one of the top ten outstanding financial innovation products in Shandong Province. The Company strengthened regional financial support, and provided high-quality financial supply for local infrastructure construction and the development of industrial and commercial enterprises with the purpose of “gathering capital to develop Shandong” and “attracting capital to invest in Shandong”.

Fourthly, the Company focused on risk prevention and control, and firmly guarded the bottom line of risk compliance. The Company intensified efforts to improve the integrity and effectiveness of risk management and control, address both symptoms and root causes, control increment, suppress inventory, and prevent variables. The Company strictly controlled the access of projects, improved the ability to prevent risks in advance, strengthened the control of major events in advance, lifted the approval level of major business decisions, and strengthened its efforts in the management and control of concentration risks of industries and counterparties. The Company optimised the internal control mechanism and process, strengthened and refined the whole-process risk management requirements, built a centralised on-site management monitoring system, realised the whole-process monitoring and analysis of underlying projects, and strictly prevented new risks. The Company cultivated a compliance culture, carried out regular compliance learning and training, actively carried out anti-money laundering and anti-terrorist financing work, and continued to strengthen the construction of anti-money laundering rules and systems.

Fifthly, the Company focused on management improvement and promoted the construction of a new pattern of high-quality development. The Company adhered to the new development philosophy with the thinking of “deepening reform and management innovation”, focused on key points, highlighted difficulties, and stressed promoting business reform and reform of systems and mechanisms. The Company has carried out management improvement activities for two consecutive years where the Company adhered to the problem-oriented approach, conducted in-depth investigation of shortcomings, and normalised rectification of new and old deficiencies to comprehensively improve the quality and efficiency of operations. The Company strengthened the construction of financial technology capabilities, explored deeply into the business demand scenarios, and built a new generation of family trust, prepaid card service trust and other business systems to continuously empower business development. The Company strengthened research and development of intellectual support, continuously improved the transformation efficiency of research achievements through the investment and research integration, and assisted in the construction of a business structure that meets the reform requirements of the new three categories and the actual situation of the Company. The Company has been awarded the “Advanced Collective of Shandong Monetary Society” for three consecutive years.

In 2023, the Group achieved total operating income with an amount of RMB1,190.5 million, representing a year-on-year decrease of 21.1%; total profit with an amount of RMB290.2 million; and net profit with an amount of RMB158.6 million, representing a year-on-year decrease of 43.4%, mainly due to (i) a year-on-year decrease in net fee and commission income; (ii) a year-on-year increase in net interest income; (iii) a year-on-year decrease in investment income; and (iv) a year-on-year increase in gains from changes in fair value during the Reporting Period.

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

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

	For the year ended 31 December			
	2023		2022	
	Amount	%	Amount	%
	<i>(RMB in thousands, except for %)</i>			
Trust business				
Operating income	766,750	64.2%	983,142	65.1%
Segment income	766,750	64.2%	983,142	65.1%
Proprietary business				
Operating income	423,707	35.5%	525,564	34.8%
Non-operating income	2,935	0.3%	621	0.1%
Segment income	<u>426,642</u>	<u>35.8%</u>	<u>526,185</u>	<u>34.9%</u>
Total	<u>1,193,392</u>	<u>100.0%</u>	<u>1,509,327</u>	<u>100.0%</u>

In 2023, the income from the trust business and proprietary business of the Company accounted for 64.2% and 35.8% of the total revenue of the Company, respectively.

3.2.1 Trust Business

Classification of Trusts

With the flexible trust arrangements under laws of the PRC, advantages of mixed operations under the Company's trust license and strong active management capabilities, the Company has been continuously developing trust products with new structures and new investment channels in order to capture market opportunities emerging at any time and satisfy the changing needs of its clients. The Company offers and manages a range of trusts to satisfy the financing, investment services and wealth management needs of its various types of clients.

The Company's right to manage and use trust assets comes from the trustors' entrustment. While the rights granted to the Company by the trustors vary from one trust to another, the Company has based on the differences of the Company's roles and responsibilities regarding the management and use of trust assets, classified its trusts into administrative management trusts and actively managed trusts. The actively managed trusts can be further subdivided into financing trusts and investment trusts.

- (1) **Financing trusts:** Through financing trusts, the Company mainly provides private equity investment banking services to various types of enterprises and institutions in China, and offers flexible and diversified financing plans.
- (2) **Investment trusts:** With investment trusts, the Company provides asset and wealth management services to institutional investors and HNWI's to satisfy their investment needs. The rapid accumulation of wealth in the PRC has resulted in diversified demands for various forms of investment. As the traditional asset management industry in the PRC is dominated by securities investment fund companies and securities firms, which mainly invest in standardised financial products in capital markets, such as the money market, publicly traded stocks and bonds, the Company believes the flexibility of trusts and the business scope of the trust license enables the Company to offer financial products with unique value to institutional investors and HNWI's.

- (3) **Administrative management trusts:** Through the administrative management trusts, the Company provides administrative services to the trustors, whilst aiming at satisfying the investment needs of trustor clients on the one hand and the financing needs of the clients' counterparties on the other hand. The Company established administrative management trusts pursuant to the instructions of trustors and provided financing and investments for real estate development projects, infrastructure projects, and various industrial and commercial enterprises chosen by those trustors. For these types of trusts, the Company merely provides trust administration-related services and accepts entrustment of trust assets from trustors and uses such trust assets to provide financing for or invest in the projects or enterprises designated by the trustors.

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

	31 December			
	2023		2022	
	Number	AUM	Number	AUM
	<i>(AUM: RMB in millions)</i>			
Financing trusts	238	43,845	187	47,214
Investment trusts	1,652	84,725	1,274	63,471
Administrative management trusts	351	56,982	175	98,792
Total	<u>2,241</u>	<u>185,552</u>	<u>1,636</u>	<u>209,477</u>

Note:

The "assets under management" as disclosed in the above table do not include the size of the insurance trusts (in terms of basic insurance amount) managed by the Company as at the corresponding dates, being RMB15,869 million (31 December 2023) and RMB5,923 million (31 December 2022). As at 31 December 2023 and 31 December 2022, the assets under management of the Company (including insurance trusts) amounted to RMB201,421 million and RMB215,400 million, respectively.

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

	For the year ended 31 December			
	2023		2022	
	Revenue	%	Revenue	%
	<i>(Revenue: RMB in millions)</i>			
Financing trusts	485	62.9	565	57.0
Investment trusts	168	21.8	128	13.0
Administrative management trusts	118	15.3	297	30.0
Total	<u>771</u>	<u>100.0</u>	<u>990</u>	<u>100.0</u>

Trust Business Segmentation

Combined with the actual business and development plan, the trust business carried out by the Company can be further divided into the following types:

Asset Service Trusts

Service trust refers to the professional trust services such as wealth planning, intergenerational inheritance, custody, bankruptcy isolation and risk disposal which are entrusted by the trustors according to the legal relationships and are tailored by the trust company to meet the needs of trustors.

Family Trusts, Family Service Trusts, and Premium Trusts

Family trust refers to the trust business in which the trust company accepts the entrustment of a single natural person or a single natural person and his family, with the protection, inheritance and management of family wealth as the main trust purpose, and provides customised affairs management and financial services such as property planning, risk isolation, asset allocation, children's education, family governance, public welfare charity undertakings, etc. The initial establishment of a family trust shall have a paid-in trust of not less than RMB10 million, and the trustor shall not be the sole beneficiary. A trust business with the main purpose of pursuing the preservation and appreciation of the value of the trust property and the nature of special-purpose account management shall not be considered as a family trust. Family service trust refers to the trust business in which a trust company meeting the relevant conditions accepts the entrustment of a single natural person, or accepts the joint entrustment of a single natural person and his family, to provide services such as risk isolation, wealth protection and distribution. The initial establishment of a family service trust shall have a paid-in trust of not less than RMB1 million, a term of not less than 5 years, and the scope of investment is limited to trust plans, bank wealth management products, and other public asset management products with interbank deposits, standardised creditor's rights assets, and listed and traded stocks as the ultimate investment targets. A premium fund trust is established by a trust company on behalf of a single natural person, or on behalf of a single natural person and his family, with the rights and benefits associated with a life insurance contract as well as the funds required for the subsequent payment of premiums as trust property. When the benefit conditions stipulated in the insurance contract are met, the insurance company shall transfer the corresponding funds to the corresponding trust account under the insurance contract, which shall be managed by the trust company pursuant to the trust documents.

In 2023, the domestic localisation of family trusts has gone through ten years, and the industry has ushered in prosperous development. SITC is one of the earliest entrants into the family trust business in China, and family trust is a strategic business that SITC has adhered to and focused on for a long time. In recent years, the Company has continued to promote business model innovation, developed and formed mature business models for innovative services such as family service trust, premium trust, equity family trust, family charity trust and foreign beneficiary trust, and continuously met the personalised, diversified and customised service needs of customers. The Company works to expand financial industry cooperation, internal and external linkage, improve customer service ability, and construct a service ecosystem. At present, the Company has established strategic cooperation with large state-owned commercial banks and national joint-stock commercial banks, and worked to grow cooperation with leading securities companies and insurance companies. At the same time, the Company attaches great importance to the application of financial technology in the field of family trust business. The Company developed, launched and keeps updating the new family trust comprehensive management platform system and client end, and implemented online management of the full process of family trust customers in various channels such as submission of application, contract generation, audio and video recording during contract signing and asset search.

As at 31 December 2023, the Company had established over 3,100 family trusts, family service trusts and premium trusts, with an existing scale of nearly RMB40 billion, which has always been in the forefront of the industry in recent years. In 2023, the Company's family trust was conferred the "Outstanding Family Office" at the development summit of asset management and wealth management industry, rated as the "Family Trust Brand" at the outstanding competitiveness financial summit. The Company always insists on leading the business with faithful culture and service thinking, taking into account model innovation and industry expansion, and is committed to building the family trust brand of "De Shan Qi Jia", which has been widely recognised by customers, experts, authoritative institutions and partners.

Other Individual Wealth Management Trusts, Legal Entities and Unincorporated Organisations Wealth Management Trusts

Other individual wealth management trusts cover the trust business in which the trust company accepts the trust of a single natural person to provide property protection and management services. The trust beneficiary rights of other individual wealth management trusts shall not be split and transferred, and the initial paid-in trust shall not be less than RMB6.0 million. As at 31 December 2023, the number of other existing personal wealth management trusts managed by the Company was 39, amounting to approximately RMB790 million. The trust contracts generally provide the general investment scope as required by the principals, and the Company has been entrusted with the allocation of trust assets on a discretionary basis.

Wealth management trusts for legal persons and unincorporated organisations cover the type of business in which a trust company is entrusted by a single legal person or unincorporated organization to provide trust services such as comprehensive financial planning, specific asset management and remuneration and benefit management. As at 31 December 2023, the number of wealth management trusts for legal persons and unincorporated organisations managed by the Company was 105, amounting to approximately RMB25.686 billion.

Asset Product Service Trusts

Entrusted by the asset management product managers, trust companies provide administrative services such as operation custody, account management, transaction execution, share registration, accounting and valuation, fund clearing, risk management, execution supervision and information disclosure, etc. for individual asset management products, and is not involved in asset management activities such as fund-raising for asset management products, investment advice, investment decision-making, selection of investment cooperation institutions, etc. As at 31 December 2023, the asset management product service trust that is entrusted to be under the management of SITC amounted to RMB4.972 billion.

Asset Securitisation Service Trusts

Trust companies, as trustees, set up special purpose vehicles with the underlying assets of asset securitisation to provide entrusted services for the underlying asset for the asset securitisation business carried out in accordance with relevant regulations of financial regulators. It falls into four business types by the type of underlying assets and service targets: credit asset securitisation service trusts, corporate asset securitisation service trust, non-financial corporate asset-backed note service trust, and other asset securitisation service trust. As at 31 December 2023, the number of the Company's existing asset-backed securities projects is six, totalling RMB9.517 billion, involving ABNs, CMBs, CMBNs, etc. In its business development, the Company has forged good relationships with financial institutions, including large brokerage firms, large commercial banks, and many quality state-owned enterprises, and has accumulated experience in the selection and construction of underlying assets, asset transfer, information disclosure, and management of trust affairs. Embracing the future, the Company will continue to enhance its capabilities in asset pool construction, product structure design and pricing, and work to branch out into underwriting and investment.

Pre-paid Fund Service Trusts

Trust companies provide administrative services such as trust property custody, equity registration, payment and settlement, execution supervision, information disclosure, liquidation and distribution of pre-paid funds, so as to achieve the trust purpose of property independence, risk isolation and fund security of pre-paid funds. Starting from the second half of 2022, the Company has taken the opportunity of the reform of single-purpose commercial pre-paid cards filing management in Shandong Province to develop and construct a full-process business system including “Shandong An Xin Fu (Mini APP)”, “Shandong Prepaid Card Service Trust Management Platform (merchant end)” and trust management end. Leveraging the advantages of property independence and risk isolation of the trust system, the Company designed and launched the “An Xin Fu Series Service Trust” to help the government solve the regulatory problems of pre-paid funds and bolster consumer confidence. So far, the “Shandong An Xin Fu” system has been available online, and such merchants as Hotel Morandi have been settled on the platform and were issued the card. The business has covered three major industries, namely commercial retail, catering and accommodation. The Company will work to grow business scenarios by exploring the application of service trust in housing decoration, property services and more.

Assets Management Trusts

Assets management trust is a self-benefiting trust and falls into a private asset management business in which the trust company sells trust products pursuant to a trust legal relationship and provides investment and management financial services to the investors of the trust products, which is subject to the Guiding Opinions on Regulating the Assets Management Business of Financial Institutions (YF[2018] No. 106). The trust company shall raise funds through non-public offering of a pooled fund trust scheme and manage the investment of the entrusted funds in accordance with the investment methods and ratios as agreed in the trust document. Investors of the trust plan are required to meet the standards of qualified investors and are both principals and beneficiaries at the time of the establishment of the trust.

Securities Investment Trusts

Securities investment trust refers to an operation in which a trust company invests funds pooled under a fund trust program in such securities as are publicly issued and publicly traded on such trading venues as are in conformity with the law. The investment usually covers stocks listed and traded on stock exchanges, public securities investment funds, private securities investment funds, financial derivatives, corporate bonds, treasury bonds, convertible bonds, exchangeable bonds, asset-backed securities, treasury bond reverse repurchase, bank deposits, and other types of investments permitted by the regulator. Securities investment trust business can be categorised in ways from different dimensions. By the nature of investment, it can be classified into four business types: fixed income, equity, commodities and financial derivatives, and hybrid. Fixed income refers to trust schemes in which more than 80% of the funds are invested in debt assets such as deposits and bonds; equity refers to trust schemes in which more than 80% of the funds are invested in equity assets such as equities; commodities and financial derivatives refers to trust schemes in which the proportion of investment in commodities and financial derivatives is not less than 80%; and hybrid refers to trust schemes that invest in multiple types of assets and where the proportion of investment in any one type of asset does not meet the aforementioned criteria. By the service contents and business models of trust companies, securities investment trusts can also be categorised into two types of business: self-managed and external advisor. The self-managed category refers to trust schemes in which the trust company, as the manager, independently selects securities products and investment strategies, independently conducts portfolio allocation, and directly makes investment decisions, while the external advisor category refers to trust schemes in which the trust company selects and hires an investment advisor to offer investment advice.

SITC set up a capital market business department to carry out capital market business, which consists of fixed income department, portfolio investment department, equity investment department, asset securitisation department, interbank securities service department, private securities service department, investment strategy department, financial market department, securities investment banking department, comprehensive operation department and other professional departments, providing investors with different risk preferences and different maturities with various assets including fixed income, mixed income, equity and financial derivatives to meet their diversified investment and asset allocation needs. The Company continued to increase its investment in information technology in capital market business. At present, the Company has established an integrated information system covering the whole process of the project, including project management system, trust beneficial right management system, standard product investment management system and asset securitisation system, which can be used to conduct comprehensive management of the project, assets, customers, products, beneficial rights, business process, business account and risk control, and can provide commercial banks, bank financial subsidiaries, securities companies, private securities fund management companies and other interbank institutions with whole process trust services such as custody, trading, valuation and settlement of securities such as stocks, bonds and funds.

As at 31 December 2023, the Company's investment trust business in existing securities was RMB58.280 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.

Real Estate Trusts

Real estate trust refers to the business in which the trustor entrusts his legally owned funds to the trust company based on his trust in the trust company, and the trust company invests the funds in real estate enterprises or real estate projects and carries out management, application and disposal in his own name according to the wishes of the trustor.

The models of real estate trust business mainly include loan financing, equity investment and innovative business models, such as real estate investment trusts (REITs). The Company selects national enterprises with high industry ranking and high credit rating and high-quality enterprises deeply developed in the region as its counterparties, and provides financial support for residential real estate and non-residential real estate (such as commercial real estate, logistics real estate, etc.) mainly through debt financing and equity investment. Over recent years, affected by the real estate market, the Company has witnessed a dip in its real estate trust business. Going forward, the Company will follow the national macro policy by complying with the regulatory orientation and reasonably judging the market landscape. This aims to support the construction of long-term rental and affordable housing and refresh our efforts in serving the needs of residents for reasonably rigid and improved housing.

Industrial and Commercial Enterprises Trusts

Industrial and commercial enterprises trust refers to the business that the trust company, as the trustee, accepts the trust property of the trustor in the form of single or collective trust, and applies the trust capitals to industrial and commercial enterprises such as production, service and trade enterprises according to the wishes of the trustor to manage, apply and dispose of the trust property. Industrial and commercial enterprises trust can solve the capital needs of enterprises in the process of operation, such as liquidity capital needs, M&A capital needs, etc. Industrial and commercial enterprises trust is an important business for trust companies to comply with the guidance of national policies and guide social funds to invest in the real economy. It can meet the capital needs of enterprises through equity, creditor's rights, stock debt linkage, industrial funds and other ways. As at 31 December 2023, the existing industrial and commercial enterprises trust scale of SITC was RMB51.470 billion, and the counterparties were mainly central enterprises, state-owned enterprises and listed companies with strong strengths and high credit ratings. Against the backdrop of the sluggish effective demand, lower-than-expected social expectations, growing risks, and severe and complex big picture, SITC 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 the manufacturing industry and regional economic development.

Infrastructure Trusts

Infrastructure trust refers to a business in which a trust company, as a trustee, accepts the trustor's funds in the form of single or collective trust, and uses the trust funds for infrastructure projects such as transportation, communication, energy, municipal administration and environmental protection, and carries out management, application or disposal. The industries involved in infrastructure trust mainly include electric power, water conservancy, road traffic, municipal engineering, etc. Trust companies can provide financial support for infrastructure projects through loans, account receivables and asset securitisation. Infrastructure trust usually takes business operation income and government financial investment as repayment sources. As at 31 December 2023, the Company's existing infrastructure trust amounted to RMB10.695 billion, and its counterparties were mainly state-owned enterprises.

SITC will seize the opportunity of the country to invest in infrastructure moderately in advance. While serving the traditional infrastructure construction, it will increase its support for new infrastructure represented by 5G network, artificial intelligence and Industrial Internet, so as to better serve the high-quality development of the real economy.

Consumer Finance Trusts

Consumer financial trust refers to the financial products and services provided by trust companies to meet the consumption needs of different customer groups in society, which mainly focus on consumer credit. Specifically, it mainly refers to consumer loans or instalment services provided by trust companies in cooperation with commercial banks, consumer finance companies, auto finance companies and other institutions. Compared with the trust business serving enterprises, consumer financial trust mainly serves natural persons and belongs to the scope of inclusive financial business.

The consumer finance trust developed by SITC is mainly a “loan assistance” model, that is, the Company entrusts consumer financial service institutions to obtain customers, and the Company issues consumer loans to customers after independent review. In this model, the Company directly signs a personal consumption trust loan contract with the borrower, and the consumer financial service institution, as the service institution engaged by the trust company, on the one hand recommends the borrower to the trust company, and on the other hand assists the trust company in loan management.

As at 31 December 2023, the Company had established consumer finance trusts totalling RMB7.629 billion, providing consumption financial services to 3.2238 million natural persons in aggregate and established long-term and stable cooperative relations with many well-known and stable platforms with high credit ratings 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.

Public Welfare Charitable Trusts

Public welfare charitable trust comes as a trust business in which the trustor entrusts its property to a trust company in accordance with the law for the purpose of public welfare, and the trust company manages and disposes of the property in question and carries out public welfare charitable activities in the name of the trust company as the wishes of the trustor. The trust property of a charitable trust and its income shall not be used for purposes other than public welfare. Public welfare charitable trusts come under the two types of business of charitable trusts and other public welfare trusts in accordance with the purpose of the trust as follows: (1) charitable trusts, where the trustor entrusts its property to the trust company for charitable purposes in accordance with the law, and the trust company manages and disposes of it and carries out the charitable activities in the name of the trustee as the wishes of the trustor; and (2) other public welfare trusts: apart from charitable trusts, other public welfare trusts authorised by the regulator are carried out by trust companies in accordance with the Trust Law of the People's Republic of China. The service areas of public welfare charitable trust mainly include poverty alleviation, poverty relief, supporting the elderly, rescuing orphans, rescuing from natural disasters, accidents and public health events. The state has always encouraged and supported the development of charitable trusts, and has provided many policy supports in venture capital withdrawal, Trust Industry Protection Fund subscription, etc.

As at 31 December 2023, the Company has established 34 standardised charitable trusts with a cumulative delivery scale of about RMB135.35 million, and has used trust funds of about RMB20 million according to the wishes of the clients, with 6,581 direct beneficiaries. The charitable projects spread all over Shandong, Shanxi, Shaanxi, Anhui, 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, alleviating poverty and helping the disabled. The development of poverty alleviation and other public welfare undertakings have effectively met the needs of individuals, enterprises, social organisations and government departments in public welfare and charity and social responsibility. The charity projects were recognised by the 8th “Shandong Charitable Award • Excellent Charity Project” and the 16th “SSE • Integrity Trust” Best Charitable Trust Product Award. In April 2023, SITC and Shandong Luxin Public Welfare Foundation jointly held the charity auction entitled “Trust” and “Mental Disorder” Hand in Hand and Bravely (similar to the Chinese character of “橄” in pronunciation) Moving forward for Care for the “Youth with Mental Disorder” together with Jinan Legan’er Service Center for the Mentally Disabled and Shandong Provincial Foundation for Rural Vitalisation, mobilising employees and customers to participate in public welfare charity activities and promote charity culture. Forty-three items were sold in the charity auction, raising RMB29,755. Shandong Luxin Public Welfare Foundation donated computers, screens, projectors and other multimedia facilities to Legan’er.

SITC is committed to providing customers with all-round and multi-level professional services, building an open and shared “financial + charity” ecosystem around the charity trust business, which connects all links of public welfare and charity to build a bridge of mutual trust and win-win situation through linkage with caring people, enterprises, government agencies and social organisations. In recent years, the Company has actively carried out charitable trust business, initially established a business model of cooperation with family trusts, to help the first rich group better realise the good wishes of taking care of the masses and repaying the society, and pass on the ethos of benevolence and charity and the values of De Shan Qi Jia from generation to generation, which is conducive to the joint realisation of customers’ family value and enterprise value, wealth value and social value.

3.2.2 Proprietary Business

In 2023, in order to reasonably optimise the allocation of its own funds and improve the operational standard of its own funds, the Company insisted on the strategy of combining long-term, mid-term and short-term assets, and made reliable investments with its own funds. Firstly, the Company fully utilised the synergy between the proprietary business and the trust business, and provided great support for standardised products and the transformation and innovation products so as to assist the transformation and development of the Company’s business. Secondly, the Company further optimised the asset structure, actively dealt with inefficient assets, and improved the quality of proprietary assets. Thirdly, with safety and liquidity being assured, diversified investment and efficient use of liquidity capital for short-term operations such as government bonds purchased under agreements to resell, investment in monetary fund and cash management trust schemes were actively carried out to improve capital utilisation efficiency. The Company recorded segment income of RMB426.6 million from its proprietary business in 2023, representing a year-on-year decrease of 18.9%, mainly due to the increase in gains from changes in fair value from RMB40.2 million in 2022 to RMB212.7 million in 2023; the Company recorded net interest expense of RMB78.0 million in 2022 and net interest income of RMB99.6 million in 2023, which was partially offset by a decrease in investment income from RMB520.3 million in 2022 to RMB72.4 million in 2023.

Allocation of Proprietary Assets

Pursuant to the Administrative Measures on Trust Companies (《信託公司管理辦法》) issued by the China Banking and Insurance Regulatory Commission (“CBIRC” which was replaced by the National Financial Regulatory Administration (“NFRA”) since May 2023) 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 stock and mutual funds, as well as wealth management products. The Company keeps a reasonable amount of its proprietary assets in highly liquid form, such as deposits at banks and other financial institutions and government bonds in order to maintain the Company’s liquidity and satisfy capital requirement for the expansion of its trust business.

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

	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Investments in monetary assets	628,173	2,535,524
Cash at banks	168,505	405,298
Other monetary assets	64,619	1,803,005
Government bonds purchased under agreements to resell	395,049	327,221
Securities Investments	10,019,091	8,405,423
<i>Investment in equity products</i>	2,264,800	1,515,532
Listed stock investment classified as:		
– Financial assets held for trading	1,481,481	43,366
Subtotal	1,481,481	43,366
Public fund investments classified as:		
– Financial assets held for trading	783,319	1,472,166
Subtotal	783,319	1,472,166
<i>Investment in wealth management products</i>		
Investments in consolidated trust schemes	2,633,387	1,323,148
Investment in unconsolidated trust schemes classified as financial assets held for trading	518,630	725,660
Investment in unconsolidated trust schemes classified as debt investments	189,079	187,436
Other financial investment classified as debt investments	3,464,378	3,645,299
Bond investments	11,600	320,707
Asset management products	937,217	687,641
Long-Term Equity Investments	1,153,095	1,071,650
Investment accounted for using the equity method	521,591	515,703
Investment classified as financial assets held for trading	631,504	555,947
Proprietary Loans Trust	115,627	107,580
Trust Industry Protection Fund	111,448	108,895
Assets classified as held for sale	–	675,178
Total	12,027,434	12,904,250

Monetary Assets

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

	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Investment in monetary assets		
– Cash at banks	168,505	405,298
– Other monetary assets	64,619	1,803,005
– Government bonds purchased under agreements to resell	395,049	327,221
Total	628,173	2,535,524

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Interest income generated from:		
– Cash at banks	1,546	966
– Government bonds purchased under agreements to resell	14,893	21,042
Total	16,439	22,008

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) were 1.0% and 1.0% for the year ended 31 December 2022 and for the year ended 31 December 2023.

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 stock investments and public fund investments, as well as wealth management products, including investments in the consolidated and unconsolidated trust schemes and asset management products.

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

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in millions, except risk category)</i>	
Risk category of underlying investments		
– Equity products	High	High
– Trust schemes	Medium	Medium
– Debt investments	Medium	Medium
– Bond investments	Medium	Medium
– Asset management products	Medium	Medium
Average investment balance⁽¹⁾		
– Equity products	1,890.2	1,230.0
– Trust schemes	2,788.7	3,634.0
– Debt investments	3,554.8	2,266.5
– Bond investments	166.2	160.4
– Asset management products	812.4	441.2

Note:

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

The Company contemporaneously adjusted the allocation of its proprietary assets in securities investment according to market conditions. During the Reporting Period, the average balance of the Company's investments in equity products increased by 53.7% from RMB1,230.0 million in 2022 to RMB1,890.2 million in 2023; the average balance of investments in trust schemes decreased by 23.3% from RMB3,634.0 million in 2022 to RMB2,788.7 million in 2023; the average balance of the debt investments increased by 56.8% from RMB2,266.5 million in 2022 to RMB3,554.8 million in 2023; and the average balance of investments in asset management products increased by 84.1% from RMB441.2 million in 2022 to RMB812.4 million in 2023.

Long-Term Equity Investments

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

The following table sets forth the major equity investments of the Company in financial institutions as at 31 December 2023, including their main businesses, the Company's proportionate equity interests in them, whether the Company held any board seats, the date of the Company's first investment, and the relevant accounting treatment of each investment.

Name	Main business	Equity interest as at 31 December 2023	Board seat	First investment date	Accounting treatment
Sinotruk Auto Finance Co., Ltd.	Automobile finance	6.52%	Yes	September 2015	Investments accounted for using the equity method
Taishan Property & Casualty Insurance Co., Ltd.	Insurance products and services	7.40%	Yes	December 2010	Investments accounted for using the equity method
Dezhou Bank Co., Ltd.	Commercial banking services	2.37%	Yes	December 2010	Investments accounted for using the equity method
Minsheng Securities Co., Ltd.	Securities brokerage, securities asset management and proprietary investment	1.16%	No	January 1999	Financial assets held for trading

The Company uses the equity method to account for its long-term equity interests in companies that constituted associates of the Company under CASBE, and account for the Company's long-term equity investments in other companies as financial assets held for trading under the requirements of CASBE No.22 "Recognition and Measurement of Financial Instruments" since 1 January 2018.

The balance of the Company's total long-term equity investments (including those accounted for as associates using the equity method, financial assets held for trading) together with their investment return (in terms of dividend income generated) for the periods indicated below are summarised as follows:

	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Long-term equity investments, accounted for:		
– As associate using the equity method	521,591	515,703
– Investment categorised as financial assets held for trading	631,504	555,947
	<u>631,504</u>	<u>555,947</u>
Total	<u>1,153,095</u>	<u>1,071,650</u>
	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Dividend income generated from:		
– As associate using the equity method	781	233,450
– Investment categorised as financial assets held for trading	796	5,609
	<u>796</u>	<u>5,609</u>
Total	<u>1,577</u>	<u>239,059</u>

The average investment returns of the Company's long-term equity investments (calculated as the total of the investment income (in terms of the dividend income received), annualised as a percentage of average investment balance in such long-term equity investments, where appropriate) were 14.4% and 0.1% for the year ended 31 December 2022 and for the year ended 31 December 2023, respectively. The significant decrease in average return on long-term equity investments in 2023 as compared to that of 2022 was primarily due to the significant decrease in dividend income from the associates of the Company in 2023.

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 2022 and 31 December 2023, the outstanding balance of the Company's proprietary loans were RMB107.6 million and RMB115.6 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 CBIRC in December 2014, trust companies are required to subscribe for a certain amount of the protection fund when conducting business. The Company's interests in the Trust Industry Protection Fund increased by 2.3% from RMB108.9 million as at 31 December 2022 to RMB111.4 million as at 31 December 2023.

3.3 Financial Overview

Analysis of Consolidated Income Statement

In 2023, the Company achieved a net profit of RMB158.6 million, representing a decrease of RMB121.8 million, or 43.4%, as compared to the corresponding period of last year.

3.3.1 Results of Operations

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

Item	For the year ended	
	2023	2022
	<i>(RMB in thousands)</i>	
I. Total operating income	1,190,457	1,508,706
Net Interest Income	100,235	-76,621
Including: Interest income	192,203	62,741
Interest expense	91,968	139,362
Net fee and commission income	766,122	981,743
Including: Fee and commission income	771,125	990,286
Fee and commission expenses	5,003	8,543
Investment income	72,373	520,345
Including: Income from investment in associates and joint ventures	10,193	176,985
Gains from changes in fair value	212,740	40,218
Gains from changes in net assets attributable to third-party investors in consolidated structured entities	26,263	35,053
Other operating income	12,677	7,795
Gains on disposal of assets	47	173
II. Total operating costs	781,110	915,974
Tax and surcharges	8,356	12,911
Business and administrative expenses	269,073	283,455
Credit impairment losses	500,462	618,726
Other operating costs	3,219	882
III. Operating profit	409,347	592,732
Add: Non-operating income	2,935	621
Less: Non-operating expenses	122,132	2,119
IV. Total profit	290,150	591,234
Less: Income tax expenses	131,517	310,805
V. Net profit	158,633	280,429

3.3.2 Total Operating Income

Net Interest Income

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

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Interest income	192,203	62,741
Including: Cash and bank deposits	2,174	2,365
Loans and advances to customers	97,290	28,432
Debt investments	77,543	10,399
Financial assets purchased under agreements to resell	14,882	21,042
Others	314	503
	<hr/>	<hr/>
Interest expense	91,968	139,362
Including: Short-term borrowings	51,154	114,385
Income attributable to third-party trust beneficiaries of consolidated structured entities	37,671	21,953
Others	3,143	3,024
	<hr/>	<hr/>
Net interest income	<u>100,235</u>	<u>-76,621</u>

The Group's net interest income in 2023 amounted to RMB100.2 million, as compared to a net interest expense of RMB76.6 million in the corresponding period of last year, mainly due to: (i) interest income for 2023 amounted to RMB192.2 million, representing an increase of 206.3% as compared to RMB62.7 million for 2022, of which the interest income of the loans granted by the Group increased from RMB28.4 million in 2022 to RMB97.3 million in 2023, and (ii) the interest income on debt investments increased from RMB10.4 million in 2022 to RMB77.5 million in 2023. In 2023, interest expense amounted to RMB92.0 million, representing a decrease of RMB47.4 million as compared to the corresponding period of last year.

Net Fee and Commission Income

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

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Fee and commission income	771,125	990,286
Including: Trustee's remuneration	717,392	961,864
Others	53,733	28,422
Fee and commission expenses	5,003	8,543
Including: Guarantee fee	4,443	8,327
Others	560	216
Net fee and commission income	766,122	981,743

The Group's net fee and commission income in 2023 was RMB766.1 million, representing a decrease of 22.0% as compared to RMB981.7 million in 2022, which was mainly due to a decrease of 22.1% in fee and commission income from RMB990.3 million in 2022 to RMB771.1 million in 2023.

Investment Income

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

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Income from long-term equity investments accounted for using equity method	10,193	176,985
Investment income from holding financial assets	55,289	98,021
Investment income from disposal of long-term equity investments	5,001	2,686,122
Investment income from disposal of loans and other debt investments	1,890	-2,440,783
Total	72,373	520,345

The Group's investment income in 2023 was RMB72.4 million, representing a decrease of RMB447.9 million as compared to RMB520.3 million in 2022, which was due to the year-on-year decrease of RMB166.8 million in the income from long-term equity investments accounted for using equity method of the Group in 2023. The investment income from disposal of long-term equity investments decreased by RMB2,681.1 million year-on-year, which was partially offset by a year-on-year increase of RMB2,442.7 million in investment income from disposal of loans and other debt investments.

Gains from Changes in Fair Value

	For the year ended 31	
	December	
	2023	2022
	<i>(RMB in thousands)</i>	
Source of gains from changes in fair value		
Financial assets held for trading	228,095	-41,867
Enterprises invested by the consolidated structured entities	-15,355	82,085
Total	<u>212,740</u>	<u>40,218</u>

The Group's gains from changes in fair value increased from RMB40.2 million in 2022 to RMB212.7 million in 2023, mainly due to the significant increase in gains from changes in fair value of the Group's financial assets held for trading such as stocks in 2023.

3.3.3 Total Operating Costs

Business and Administrative Expenses

The following table summarises the breakdown of the Group's business and administrative expenses for the periods indicated:

Item	For the year ended	
	31 December	2022
	2023	2022
	<i>(RMB in thousands)</i>	
Employee benefits	122,427	144,744
Depreciation and amortisation	57,181	44,858
Legal and professional fees	11,117	18,382
Network expenses	17,895	16,293
Promotional expenses	7,003	9,716
Lease charges	7,961	7,733
Business hospitality expenses	5,656	7,272
Travel expenses	5,942	4,254
Office expenses	3,104	1,754
Others	30,787	28,449
Total	269,073	283,455

The Group's business and administrative expenses in 2023 were RMB269.1 million, representing a decrease of 5.1% as compared with RMB283.5 million in 2022, which was mainly due to the decrease in employee benefits of the Group.

Credit Impairment Losses

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

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Losses on bad debts of accounts receivable	6,842	1,603
Losses on bad debts of other receivables	19,232	1,630
Impairment losses on loans and advances to customers	165,006	445,222
Impairment losses on debt investments	<u>309,382</u>	<u>170,271</u>
Total	<u>500,462</u>	<u>618,726</u>

The Group's credit impairment losses decreased by 19.1% from RMB618.7 million in 2022 to RMB500.5 million in 2023, mainly due to a decrease in provisions in 2023 year-on-year based on the actual credit risk and the previous accrued basis.

Non-operating Expenses

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Compensation expenses	120,810	764
Penalty expenses	400	1,270
Losses on retirement of non-current assets	<u>922</u>	<u>85</u>
Total	<u>122,132</u>	<u>2,119</u>

The Group's non-operating expenses increased from RMB2.1 million in 2022 to RMB122.1 million in 2023, mainly due to the provision for compensation expenses of RMB120.8 million as the Company was involved in two litigation.

Total Profit and Operating Margin

The following table summarises the total profit and operating margin for the periods indicated:

	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Total profit	290,150	591,234
Operating margin ⁽¹⁾	24.4%	39.2%

Note:

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

As a result of the foregoing, the Group's total profit decreased from RMB591.2 million in 2022 to RMB290.2 million in 2023.

Income Tax Expenses

Item	For the year ended 31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Income tax expenses for the year	170,546	251,482
Deferred income tax expenses	-39,029	59,323
Total	<u>131,517</u>	<u>310,805</u>

The Company recorded an income tax expense of RMB310.8 million in 2022 and an income tax expense of RMB131.5 million in 2023, mainly due to the year-on-year decrease in the Group's total profit in 2023.

Net Profit and Net Profit Margin

The following table summarises the net profit and net profit margin for the periods indicated:

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Net profit	158,633	280,429
Net profit margin ⁽¹⁾	13.3%	18.6%

Note:

(1) Net profit margin = Net profit/total operating income.

As a result of the foregoing reasons, the net profit decreased from RMB280.4 million in 2022 to RMB158.6 million in 2023.

3.3.4 Segment Results of Operations

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

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Trust business:		
Operating income	<u>766,750</u>	<u>983,142</u>
Segment income	<u>766,750</u>	<u>983,142</u>
Proprietary business:		
Operating income	<u>423,707</u>	<u>525,564</u>
Non-operating income	<u>2,935</u>	<u>621</u>
Segment income	<u>426,642</u>	<u>526,185</u>

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

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Trust business:		
Operating expenses	264,487	281,169
Non-operating expenses	122,032	2,102
	<u>386,519</u>	<u>283,271</u>
Segment expenses	<u>386,519</u>	<u>283,271</u>
Proprietary business:		
Operating expenses	516,623	634,805
Non-operating expenses	100	17
	<u>516,723</u>	<u>634,822</u>
Segment expenses	<u>516,723</u>	<u>634,822</u>

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

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Trust business	380,231	699,871
Proprietary business	-90,081	-108,637
	<u>290,150</u>	<u>591,234</u>
Total profit	<u>290,150</u>	<u>591,234</u>

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

	For the year ended	
	31 December	
	2023	2022
Trust business	49.6%	71.2%
Proprietary business	-21.1%	-20.6%

3.3.5 Trust Business

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

The total profit of the Group's trust business decreased by 45.7% from RMB699.9 million in 2022 to RMB380.2 million in 2023, primarily due to a decrease of 22.0% in the segment income from the trust business from RMB983.1 million in 2022 to RMB766.8 million in 2023, and an increase of 36.4% in segment operating expenses from the trust business from RMB283.3 million in 2022 to RMB386.5 million in 2023.

- (1) The decrease in the segment income from the trust business was mainly due to a decrease in the Group's net fee and commission income from RMB981.7 million in 2022 to RMB766.1 million in 2023.
- (2) The increase in the segment operating expenses from the trust business was mainly due to an increase in non-operating expenses related to trust business from RMB2.1 million in 2022 to RMB122.0 million in 2023.

As a result of the foregoing, the segment margin of the trust business decreased from 71.2% in 2022 to 49.6% in 2023.

3.3.6 Proprietary Business

The segment income from the Group's proprietary business mainly consists of the net interest income, gains from changes in fair value, investment income, etc. The segment operating expenses of the Group's proprietary business mainly consists of tax and surcharges, business and administrative expenses and credit impairment losses that are related to the Group's proprietary business.

The total profit of the Group's proprietary business recorded a loss of RMB108.6 million in 2022, as compared to a loss of RMB90.1 million in 2023, primarily due to a decrease of 18.9% in the segment income from the proprietary business from RMB526.2 million in 2022 to RMB426.6 million in 2023, which was partially offset by a decrease of 18.6% in the segment operating expenses from the proprietary business from RMB634.8 million in 2022 to RMB516.7 million in 2023.

- (1) The decrease in segment income from the proprietary business was mainly due to (i) an increase in the gains from changes in fair value from RMB40.2 million in 2022 to RMB212.7 million in 2023; and (ii) the Company recorded net interest expense of RMB78.0 million in 2022 and net interest income of RMB99.6 million in 2023; partially offset by (iii) a decrease in the investment income from RMB520.3 million in 2022 to RMB72.4 million in 2023.
- (2) The decrease in the segment operating expenses from the proprietary business was mainly due to a decrease in the provision for impairment losses on credit assets from RMB618.7 million in 2022 to RMB500.5 million in 2023.

3.3.7 Selected Consolidated Financial Positions

The Group's consolidated balance sheet 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 balance sheet.

Assets

As at 31 December 2022 and 31 December 2023, the total assets of the Group (including the Company and the trust schemes over which the Company has control) amounted to RMB14,458.1 million and RMB14,168.9 million, respectively, of which the total assets of the Company amounted to RMB14,065.9 million and RMB13,249.8 million, respectively. The Group's major assets consist of (i) loans and advances to customers, (ii) debt investments, (iii) long-term equity investments, (iv) financial assets held for trading, (v) monetary assets, (vi) accounts receivable, and (vii) financial assets purchased under resale agreements. As at 31 December 2023, the above-mentioned major assets accounted for 15.5%, 31.8%, 6.0%, 31.8%, 2.0%, 1.2% and 2.8% of the total assets of the Group, respectively.

Loans and Advances to Customers

The following table sets forth the principal amount of the Group's loans and advances to customers, interest receivable, expected credit losses ("ECL") allowance, net amount of the Group's loans and advances to customers:

Item	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Principal amount of loans and advances to customers	2,428,707	1,238,308
Including: Issued by the Company	115,000	115,000
Issued by consolidated structured entities	2,313,707	1,123,308
Interest receivable	125,371	15,709
Less: ECL allowance – principal amount	339,299	229,179
ECL allowance – interest receivable	13,254	867
Loans and advances to customers, net	<u>2,201,525</u>	<u>1,023,971</u>

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

The Group's loans and advances to customers were all granted to corporate customers during the Reporting Period.

Some of the loans granted by the Group's trust schemes to which it made proprietary investment and consolidated into the Group's financial statements were identified as impaired during the Reporting Period. The gross amount of such impaired loans increased by 98.1% from RMB377.6 million as at 31 December 2022 to RMB748.0 million as at 31 December 2023. 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 2022 and 31 December 2023 were RMB267.5 million and RMB897.3 million, respectively. The Group determined the provision for impairment losses on those loans through ECL assessments and made allowance for impairment of RMB176.3 million and RMB180.9 million for these impaired loans as at 31 December 2022 and 31 December 2023, respectively, representing 46.7% and 24.2% of the gross amount of those loans, respectively. The Group has provided impairment allowances in accordance with the provisions under CASBE No.22 "Recognition and Measurement of 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. The gross amount of such impaired loans represented 30.5% and 30.8% of the Group's gross loans and advances to customers as at 31 December 2022 and 31 December 2023, 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 2023, the principal balance of Company's proprietary loans was RMB115 million, which remained stable with the beginning of the year.

The following table sets forth the gross amount of the Company's proprietary loans, interest receivable, ECL allowance, net amount of such loans:

	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Principal amount of loans and advances to customers	115,000	115,000
Interest receivable	7,526	297
Less: ECL allowance – principal	6,475	7,697
ECL allowance – interest receivable	424	20
	<u> </u>	<u> </u>
Loans and advances to customers, net	<u>115,627</u>	<u>107,580</u>

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

Debt Investments

The following table sets forth the Company's total debt investments, ECL allowance, net debt investments as at the date indicated:

	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Principal	6,813,115	6,005,545
Interest receivable	17,822	3,359
Total	6,830,937	6,008,904
Less: ECL allowance – principal	2,321,985	2,176,002
ECL allowance – interest receivable	1,695	167
Net amount	4,507,257	3,832,735

Long-term Equity Investments

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

	Equity Interest as at 31 December 2023	31 December 2023	2022
		<i>(RMB in thousands)</i>	
Associates directly invested by the Company accounted for using equity method:			
Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	7.40%	162,278	171,033
Sinotruk Automobile Finance Co., Ltd. (重汽汽車金融有限公司)	6.52%	225,155	218,079
Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	2.37%	130,250	122,823
Anhui Luxin Private Equity Investment Fund Management Co., Ltd. (安徽魯信私募股權投資基金管理 有限公司)	25.00%	3,908	3,768
Subtotal		521,591	515,703
Enterprises invested by the consolidated structured entities		322,478	387,404
Total		844,069	903,107

Financial Assets Held for Trading

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

Item	31 December	
	2023	2022
	<i>(RMB in thousands)</i>	
Financial assets at FVTPL	4,506,455	4,082,962
Including: Stock investments	1,481,481	43,366
Public fund investments	783,319	1,472,194
Investment in asset management scheme	937,217	697,701
Bond investments	11,628	390,546
Equity investments in unlisted companies	661,872	596,214
Trust Industry Protection Fund	112,308	109,881
Investments in trust schemes	518,630	773,060
Total	<u>4,506,455</u>	<u>4,082,962</u>

The changes in the major composition of the Group's financial assets held for trading were due to the flexible adjustment of portfolio based on the market conditions by the Group in order to increase investment returns. Financial assets held for trading increased by 10.4% from RMB4,083.0 million as at 31 December 2022 to RMB4,506.5 million as at 31 December 2023, primarily due to the Group's (i) increase of the stock investments; (ii) increase of the investments in asset management schemes; (iii) decrease of the public fund investments; (iv) decrease of the bond investments; and (v) decrease of the investments in trust schemes.

Monetary Assets

As at 31 December 2022 and 31 December 2023, the Group's monetary assets amounted to RMB2,240.6 million and RMB283.9 million, respectively, of which RMB2,208.3 million and RMB233.1 million, respectively, were proprietary assets of the Company, and the remaining was cash and bank balance of the Group's consolidated trust schemes.

Accounts Receivable

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

Trustee's remuneration receivable of the Group increased by 16.5% from RMB148.1 million as at 31 December 2022 to RMB172.5 million as at 31 December 2023. 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 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 2024, 20.2% of the trustee's remuneration receivable was recovered.

Financial Assets Purchased under Resale Agreements

The Group's financial assets purchased under resale agreements consist of the government bond purchased under agreements to resell as part of its proprietary business. The Group's government bond purchased under agreements to resell increased from RMB357.3 million as at 31 December 2022 to RMB395.0 million as at 31 December 2023. These changes were due to the flexible adjustment of the business scale of the Company's government bond purchased under agreements to resell based on the overall market condition and interest rates, and such adjustment resulted in a change in the amounts of the Company's government bond purchased under agreements to resell as at 31 December 2022 and 31 December 2023, respectively.

Liabilities

As at 31 December 2022 and 31 December 2023, the Group's total liabilities amounted to RMB3,523.9 million and RMB3,079.5 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 NFRA. The Group's major liabilities during the Reporting Period included short-term borrowings, employee benefits payable, provisions and other liabilities. As at 31 December 2023, the above liabilities accounted for 31.7%, 2.4%, 3.9% and 55.7% of the Group's total liabilities, respectively.

Short-term Borrowings

As at 31 December 2023, the Group's short-term borrowings amounted to RMB974.8 million were interest-bearing loans from China Trust Protection Fund Co., Ltd. which will fall due in April, May, June and September 2024, respectively.

Provisions

As at 31 December 2023, the Group's provisions amounted to RMB120.8 million were estimated litigation compensation.

Other Liabilities

The Group's other liabilities during the Reporting Period consisted mainly of net assets attributable to third-party trust beneficiaries of consolidated structured entities, proceeds due to the National Council for Social Security Fund of the PRC (全國社會保障基金理事會), Trust Industry Protection Fund collected from counterparty clients of financing trusts, advances from trust schemes and other investments, etc.

The net assets attributable to third-party trust beneficiaries of consolidated structured entities represent third-party beneficiaries' share of net assets of the consolidated trust schemes. Under the PRC laws and regulations, these third-party beneficiaries' entitlements are limited to the available assets of the relevant trust schemes, and as long as the Company does not breach its duty as a trustee, it will not be required to use any of its proprietary assets to pay for such third-party beneficiaries' entitlements. In addition, the Company cannot use, and is prohibited from using, the assets of a consolidated trust scheme to pay for any beneficiary of another consolidated trust scheme. As such, while the net assets attributable to other beneficiaries of consolidated structured entities are accounted for as the Group's liabilities, such liabilities are limited to the net assets of the relevant consolidated trust scheme. The Group's net assets attributable to third-party trust beneficiaries of consolidated structured entities increased by 230.8% from RMB243.9 million as at 31 December 2022 to RMB806.9 million as at 31 December 2023. Changes in such amount mainly reflected changes in the net assets of the Group's consolidated trust schemes as well as the changes in percentage of the Company's proprietary investment in such trust schemes.

The Company's Trust Industry Protection Fund collected from counterparty clients of its financing trusts increased from RMB299.3 million as at 31 December 2022 to RMB333.9 million as at 31 December 2023.

The Company's receipts in advance from trust schemes and other investments are advances received from equity investments in consolidated structured entities, which are presented as other liabilities in the consolidated statements as the revenue recognition criteria are not met, and increased from RMB220.8 million as at 31 December 2022 to RMB246.5 million as at 31 December 2023.

Off-balance Sheet Arrangements

As at 31 December 2023, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

3.4 Assets under Management, Asset Quality and Financial Performance of Consolidated Trust Schemes

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

During the year ended 31 December 2022 and the year ended 31 December 2023, the Company had consolidated 19 and 22 of the trust schemes under its management, respectively, and the total trust assets of these consolidated trust schemes were RMB1,892.4 million and RMB3,724.3 million, respectively. The following table sets forth changes in the number of the Group's consolidated trust schemes during the Reporting Period:

	For the year ended	
	31 December	
	2023	2022
Beginning:	19	32
Newly consolidated trust schemes	7	1
Deconsolidated trust schemes	4	14
Ending:	22	19

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

	31 December	
	2023	2022
	<i>(RMB in millions)</i>	
Total assets of the Company	13,250	14,066
Total assets of consolidated trust schemes	3,724	1,892
Consolidation adjustment	-2,805	-1,500
	<hr/>	<hr/>
Total assets of the Group	<u>14,169</u>	<u>14,458</u>

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

	31 December	
	2023	2022
	<i>(RMB in millions)</i>	
Total liabilities of the Company	2,156	3,203
Total liabilities of consolidated trust schemes	302	234
Consolidation adjustment	622	87
	<hr/>	<hr/>
Total liabilities of the Group	<u>3,080</u>	<u>3,524</u>

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

	31 December	
	2023	2022
	<i>(RMB in millions)</i>	
Total equity of the Company	11,094	10,863
Consolidation adjustment	-5	71
	<hr/>	<hr/>
Total equity of the Group	<u>11,089</u>	<u>10,934</u>

The consolidation of these trust schemes also affected the Group's results of operations. For example, all trustees' remunerations which the Company was entitled to from these consolidated trust schemes were eliminated as a result of consolidation and thereby reduced the Company's fee and commission income. In addition, the consolidation of these trust schemes increased the Group's interest income due to inclusion of interest income generated from loans granted by the Group's consolidated trust schemes. It also increased the Group's interest expense which represented interest income of the Group's consolidated financing trust schemes that were expected to be distributed to third-party beneficiaries of such trust schemes. However, as these impacts on income and expenses largely offset each other, the resulting impact on the Group's net profit has been reduced. The following table illustrates the impact on the Group's net profit resulting from the consolidation of these trust schemes during the Reporting Period:

	For the year ended	
	31 December	
	2023	2022
	<i>(RMB in millions)</i>	
Net profit of the Company before consolidation of trust schemes	234	284
Impact of consolidation of trust schemes	-75	-4
Net profit of the Group after consolidation of trust schemes	<u>159</u>	<u>280</u>

Determining whether a trust scheme should be consolidated involves a substantial subjective judgment by the Company's management. The Company assesses whether a trust scheme should be consolidated based on the contractual terms as to whether the Company is exposed to risks of, or has rights to, variable returns from the Company's involvement in the trust and the ability to affect those returns through the Company's power to direct the activities of the trust. The contractual terms of those consolidated trust schemes usually have some or all of the following features:

- (1) Whether the Company has power over the trust scheme, and whether the Company can exercise the rights that give the Company the ability to affect the relevant activities of the trust scheme. Usually the Company has such power when it acts as the trustee of those actively managed trusts, as the contractual terms in the trust contracts allow the Company to determine the selection of assets or projects in which the trust assets will be invested, to perform due diligence on the assets or projects as well as the counterparties that hold the assets or projects, to determine the pricing strategy, and to be actively involved in the ongoing management and disposition of the trust assets;

- (2) Whether the Company is exposed to the risks of or has rights to, variable returns when the Company's returns from its involvement have the potential to vary as a result of the performance of the trust scheme. Such variable returns may either form a part of the investment returns from the trust scheme when the Company has proprietary funds invested in the trust scheme, or floating trustee's remuneration as calculated according to the relevant terms in the trust contracts; and
- (3) Whether the Company controls the trust scheme that the Company not only has the power over the trust scheme and exposure or rights to variable returns from its involvement, but also the ability to use its power to affect the returns from the trust scheme. As the Company is responsible for the planning, pricing, setting of beneficial rights, management and operations of those actively managed trust schemes as the trustee, the Company may have the ability to significantly affect its returns from such trust schemes. For example, where the Company subscribes a significant portion of a trust scheme, or in case the Company decides to provide liquidity support to a troubled trust, the Company intentionally uses its rights as the trustee and ability to invest using proprietary funds, so as to associate itself with the variable returns from such trust schemes.

Under CASBE, the greater the magnitude and variability of the returns that the Company is exposed to from the Company's involvement with a trust scheme, the more likely that the Company will be deemed to have control over the trust scheme and be required to consolidate it. However, there is no bright line standard and the Company is required to consider all the relevant factors as a whole.

Given the Company's limited decision-making authority over administrative management trusts and because the Company has not made any proprietary investments in the Company's administrative management trusts during the Reporting Period, the Company had not been required to consolidate any administrative management trusts during the Reporting Period.

With respect to the actively managed trusts, the Company is more likely to be required to consolidate those in which it has made proprietary investments as there may be substantial variable return resulting from such investments. The contract terms of the Company's consolidated actively managed trust schemes with respect to the Company's power and authority do not differ materially from those of its unconsolidated actively managed trusts. The amount of proprietary investment the Company has made in an actively managed trust as a percentage of its total trust assets has been, and will be, a differentiating factor in determining whether the Company

was, and will be, required to consolidate such trust. Variable return may also be affected by the allocation and distribution of trust projects of trust beneficiaries pursuant to the terms and conditions of respective trust contract, when the Company determines whether a trust scheme should be consolidated or not.

During the Reporting Period, the Company had not consolidated any administrative management trust schemes and had not consolidated any actively managed trust schemes in which it did not make any proprietary investments.

3.5 Risk Management

Overview

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

3.5.1 Risk Management Organisational Structure

The integrated risk management organisational structure of the Company is included in every level of the Company's corporate governance, including (1) the shareholders' general meeting; (2) the Board of Directors and Strategies and Risk Management Committee and Audit Committee; (3) the board of supervisors of the Company (the "**Board of Supervisors**"); (4) the General Manager's Office Meeting; (5) the Business Decision Consultation Committee; (6) the Trust Business Review Committee/Capital Market Business Review Committee; (7) the Trust Business Ad-hoc Issue Coordination Group; and (8) other functional departments, including the Risk Control Department, Legal & Compliance Department, Capital Market Business Review Centre, Trust Finance Department (Operation Centre), Financial Management Department, Information Technology Department, Asset Supervision Centre, Supervision and Audit Department, Asset Disposition Department and Proprietary Business Management Department. Finally, all trust business departments of the Company are required to assume primary risk management responsibilities.

3.5.2 Factors Affecting the Company's Results of Operations

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

General Economic and Financial Market Conditions

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

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

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

Regulatory Environment

The Company's results of operations, financial condition and development prospects are affected by regulatory developments in the PRC. The NFRA (formerly the CBIRC), the main regulatory authority for the PRC trust industry, has been continuously monitoring the development status of the industry and issuing various regulations and policies to encourage or discourage or even prohibit conducting certain types of trust business from time to time. The Company will need to continuously adjust its trust business structure and mode of operation to conform to these regulations and policies, which may have positive or negative impact on the size, income or profitability of the Company's trust business. In April 2018, the PBOC, the CBIRC, the China Securities Regulatory Commission ("CSRC") and the State Administration of Foreign Exchange jointly issued the Guiding Opinions on Regulating Asset Management Business of Financial Institution (Yin Fa [2018] No.106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to unify the regulatory standards of asset management business by product types, requiring, among other things, financial institutions including trust companies to carry out "de-channelling" and "reduce nested systems" in conducting the asset management business. In 2020, the CBIRC made clear requirements for the pressure drop of trust companies' channel business and financing business, insisting on the goal of "de-channelling", continuing to standardise business development and guiding trust companies to accelerate business model transformation. In March 2023, the CBIRC issued the Notice on Standardising the Classification of Trust Business of Trust Companies, which further clarifies the boundaries and service content of trust business, guides trust companies to give full play to institutional advantages and industry competitive advantages, promotes trust companies to return to their origin, standardise development, and promotes the high-quality development of the trust industry. Such policies may impose certain tightening effects on the operation of trust companies in the short term, while in the long term, they are conducive to trust companies in enhancing the active management capability and returning to the

fundamentals of trust industry. However, the regulatory authorities may also restrict the development of certain businesses of trust companies from time to time, which may have an adverse effect on the Company's business.

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

Business Lines and Product Mix

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

performance of the Company's proprietary business is affected by its proprietary assets allocation plan, market condition, interest rate as well as the Company's investment and risk management capability, and will also significantly affect the Company's financial position and results of operation.

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

Competition

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

The Company also faces competition from other financial institutions. For the Company's financing trusts, the Company competes with other potential financing sources, such as commercial banks and commercial bank wealth management subsidiaries, for the Company's counterparty clients and the intensity of competition from other financing sources will affect the number and quality of the Company's counterparty clients as well as the level of interest the Company can charge on financings to the Company's counterparty clients and thereby affect the Company's operating income and profitability. For the Company's investment trusts, the Company competes with other financial

institutions that provide assets and wealth management services. Given the changes of regulation policies on various financial sectors, financial institutions such as commercial banks, and commercial bank wealth management subsidiaries, securities firms, fund management companies, private securities investment funds, private equity investment funds and insurance companies have diversified their assets and wealth management services. As such, the Company's ability to grow its investment trust business depends on the Company's ability to effectively compete with these financial institutions through offering a variety of trust products that are tailored to the different needs of the Company's trustor clients.

Interest Rate Environment

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

- Changes in lending rates may affect the comparative financing costs for the Company's counterparty clients from different financing sources and thereby affect their willingness to carry out financings through the Company's trust products;
- Changes in deposit interest rates may affect the comparative investment returns to the Company's trustor clients from different investment options and thereby affect their willingness to invest in the Company's trust products;
- Changes in lending rates may affect the amount of interest income generated from financing service provided to the Company's counterparty clients by the Company's trust schemes or itself using the Company's proprietary assets and thereby affect the amount of the trustee's remuneration of the Company as well as the Company's interest income from consolidated trust schemes and its proprietary loans; and
- Changes in interest rates may also affect the value of various types of financial assets held by the Company's trust schemes or itself as proprietary assets. For example, an increase in interest rates may cause a decline in the market value of fixed-income securities and thereby reduce the Net Assets Value of the trust schemes holding such securities or the Company's proprietary business.

3.5.3 Credit Risk Management

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

During the Reporting Period, in strict compliance with credit risk management guidelines and other regulatory requirements issued by the NFRA, 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 Reporting Period, the Company used its intelligent risk control system, which was independently designed and developed, 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 becomes insufficient. Under circumstances where the Company assesses the likelihood of such default becomes relatively high, the Company may take necessary remedy 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 of Directors. The Company maintains a diversified investment portfolio for the Company's proprietary business and has established detailed internal risk management policies and procedures for each type of investment.

3.5.4 Market Risk Management

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

3.5.5 Liquidity Risk Management

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

During the Reporting Period, the Company conducted periodical forecasts of the Company's cash flows and monitored the short-term and long-term capital needs of the Company to ensure sufficient cash reserve and financial assets that could be readily convertible into cash. The Company holds sufficient unrestricted bank deposits and cash on hand to meet the capital requirements of the Company's day-to-day operations.

3.5.6 Compliance Risk Management

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

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

3.5.7 Operational Risk Management

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

3.5.8 Reputational Risk Management

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

3.5.9 Other Risk Management

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

3.5.10 Anti-money Laundering Management

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

The Company established an Anti-Money Laundering Leading Work Group for anti-money management, appointed the General Manager of the Company as the chairperson of the group, and the Chief Risk Officer who was responsible for legal and compliance matters as the vice chairperson of the group, and the heads of other relevant departments as members of the group. There is an anti-money laundering work office under the Anti-Money Laundering Working Group, consisting of the heads of the Trust Finance Department (Operation Centre), Information Technology Department, Office of the Board of Directors (Supervisors) (Research and Development Centre), Asset Monitoring Centre, Finance Management Department, Risk Control Department, Legal & Compliance Department, Wealth Management Business Division, Family Trust Business Division, Office, Office of Discipline Inspection (Supervision and Audit Department) and Human Resources Department (Party and Mass Work Department), in order to organise and conduct anti-money laundering management work.

Pursuant to the Company's Administrative Measures on Anti-Money Laundering, the Company has established a client identification system, which requires employees of the Company to effectively verify and continuously update the identification data of the Company's clients. For example, employees of the Company are required to conduct due diligence on the comprehensive background of potential clients, including verifying the validity of the identification data provided, such as the respective corporate certification for enterprises and individuals, or individual identity cards, as well as understanding sources of funds, liquidity and potential transaction purposes of such potential clients. Also, employees of the Company are required to continuously update such clients' identification data during its daily operation, in particular where there is any material change. Employees shall conduct further investigations if any irregularity is identified in connection with the clients' operational or financial status, or their usual transaction patterns, or there was any discrepancy between any new data available to the Company and the data previously provided to the Company, or any suspicious activities involving money laundering or terrorist financing. The Company may terminate the business relationship with a client if it fails to provide it with the most updated and valid identification documents within a certain period upon the Company's request. The identification data of the Company's clients is recorded and archived in accordance with the relevant PRC laws. Such identification data and any information or materials relating to the Company's transactions and accounts with the Company would be kept for at least five years after the relevant party ceases to be a client of the Company.

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

3.6 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 NFRA. Effective from 20 August 2010, the Company started to implement the CBIRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the NFRA 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 2023, the Company's net capital was approximately RMB8.889 billion, which is not less than RMB200 million; the total risk-based capital was approximately RMB3.190 billion; the ratio of net capital to total risk-based capital was 278.65%, which is not lower than 100%; and the ratio of net capital to net asset was 80.13%, which is not lower than 40%.

3.7 Future Prospect

For some time to come, the slowdown in global trade growth will weigh on economic growth, the fluctuations of energy prices against inflation, and the financial risks that may be induced by high debts, high interest rates and geopolitical conflicts around the world should not be overlooked. China's economy is facing a series of challenges such as insufficient effective demand, overcapacity in some industries, weak social expectations, and more risks and hidden dangers. In general, China's development is facing more favourable conditions than unfavourable factors, with huge development resilience and potential, and the basic trend of economic recovery and long-term improvement remains unchanged.

The Central Financial Work Conference and the Central Economic Work Conference pointed out a new direction for the trust industry to promote high-quality development and build a strong financial country. The transformation and upgrading needs of the real economy, the needs of people for a better life and the large base of middle-income groups have brought tremendous development space and important market opportunities for the trust companies. The trust industry should adhere to the guidance of supervision, establish the original advantages of trust, always practice the political and people nature of entrusted services, improve professionalism, and embark on the road of high-quality development of the trust industry with Chinese characteristics.

Under the guidance of regulatory policies and the "new three categories" reform of trusts, SITC will strengthen the pace of transformation, insist on returning to the origin of trust, further enhance the ability to serve the transformation and upgrading of the real economy, seize the development opportunities of the capital market, make every effort to build a "allocation-oriented" wealth management system, adhere to "gathering capital to develop Shandong", focus on regional economic development, and step up its efforts in five major aspects, namely technology trust, green trust, inclusive trust, pension trust and digital trust, so as to provide comprehensive financial services for the high-quality development of the real economy and people's needs for a better life, and strive to build a new pattern of high-quality development of the Company.

3.8 Key Tasks for 2024

In 2024, SITC will, by fully implementing the spirit of the 20th National Congress of the Communist Party of China and the spirit of the Central Economic and Financial Work Conference, firmly grasp the theme of high-quality development, maintain determination, reshape capabilities, work hard to improve internal strength, comply with regulatory guidance, adhere to the concept of transformation and development, and spare no effort to focus on featured operations to build a regional trust company with “stability and health” and “specialisation and refinement”.

Firstly, the Group will push ahead the development of advantageous businesses. While accelerating the development of featured and advantageous businesses represented by family trusts, the Group will continue to deepen cooperation with banks, securities firms and other channels, focus on batch quantitative scenarios, and promote the achievement of economies of scale. The Group will vigorously explore the new blue ocean of the industry, capture the family trust market, improve the development level of insurance trust business, and actively explore the insurance trust business model of pension function. The Group will strive to expand the scale of standard product trusts, maintain good active management investment performance, improve the fixed income product line, promote the accelerated increase in scale, and continue to cultivate core competitive advantages around the five core elements of investment research, system, talent, product and risk management. The Group will select non-standard business opportunities, invest in high-quality projects, and build a “refined and excellent” business model. The Group will lead the business development with innovation, give full play to the unique advantages of the trust system in the fields of pension and inclusive finance, and shape differentiated competitive advantages and core competitiveness.

Secondly, the Group will explore the potential of regional development.

Based on local government services, the Group will deepen the business content of “government trust”. The Group will comprehensively use non-standard loans, securities investment banking, asset services and other tools to meet the needs of local governments for capital financing, and provide comprehensive financial services for the full life cycle of key enterprises in the province. The Group will keep a close eye on the new anchors of asset service trusts, focus on new service businesses such as risk disposal service trusts and prepaid fund service trusts, and strive to build trusts as a useful tool for government departments to improve their social governance capabilities. The Group will implement the concept of green development, seize the opportunity of the construction of a green, low-carbon and high-quality development pilot zone in Shandong Province, give full play to the industry-university-research linkage of the green research team, explore and innovate green trust product models, and strive to promote the transformation of research achievements into business practices.

Thirdly, the Group will firmly guard the bottom line to prevent risks.

Adhering to the two priorities of “standardisation” and “control”, the Group will coordinate the disposal of non-performing assets and risk prevention and control. In addition to strengthening strategic risk management, the Group will improve the construction of a closed-loop system for the whole process of risk management and control, adhere to the risk management culture of “comprehensive, full staff and whole process”, strengthen pre-approval, post-loan management and temporary management of projects, strictly control concentration risks, establish an early risk correction mechanism, and strictly prevent new risks using a multi-pronged approach. The Group will consolidate the responsibility for risk prevention and control, accelerate the establishment of asset disposal centers, and improve the professional level of asset disposal teams. While vigorously cultivating a compliance culture, the Group will effectively strengthen compliance training, improve the compliance system, maintain public opinion, and strictly prevent reputation risks.

Fourthly, the Group will unswervingly promote the reform of systems and mechanisms, and continue to improve the performance appraisal system. Taking into account the Company's current situation, market competition and transformation direction, and based on the principle of equal emphasis on incentives and constraints, the Group has established a remuneration mechanism in line with the Company's development characteristics, thus playing the role of a commander. The Group will focus on the construction of talent teams, strengthen its efforts in the organisational structure adjustment and talent structure adjustment during the period of reform and transformation of trust companies, improve the mechanism of "promotion and demotion of cadres, employment or dismissal of employees, and salary increment or decrement", and stimulate the spirit of employee responsibility. The Group will fully implement the "Guo Xin Lan" talent training program to provide necessary resource support and technical guidance for employee transformation. The Group will formulate business synergy management measures, give full play to the leading and driving role of talents in the innovation line, and encourage employees of different lines to integrate resources, work together, unite people and gather strength.

4. PROFITS AND DIVIDENDS

The Company's profits for the year ended 31 December 2023 are set out in the section headed "3. Management Discussion and Analysis – 3.3 Financial Overview" in this results announcement.

The Company will not declare the final dividend for the year 2023.

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

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

Members of the Board of Directors include Mr. Yue Zengguang (chairperson) and Mr. Fang Hao (general manager) as executive Directors; Mr. Wang Zengye (vice-chairperson), Mr. Zhao Zikun and Ms. Wang Bailing as non-executive Directors; Ms. Zhang Haiyan, Mr. Zheng Wei and Ms. Liu Wanwen as independent non-executive Directors.

Members of the Board of Supervisors include Mr. Guo Shougui (chairperson), Mr. He Shuguang, Mr. Chen Yong, Mr. Wu Chen and Ms. Wang Zhimei as shareholder representative Supervisors; Ms. Wang Yan as external Supervisor; Ms. Li Yan, Mr. Zhang Wenbin and Mr. Wei Xiangyang as employee representative Supervisors.

Members of the senior management of the Company include Mr. Fang Hao as the general manager; Ms. Zhou Jianqu as the vice general manager; Mr. He Chuangye as the vice general manager, the secretary to the Board and the company secretary; Mr. Wang Ping as the chief financial officer; Mr. Niu Xucheng as the vice general manager; Mr. Tian Zhiguo as the chief risk officer; Mr. Sun Botao and Mr. Cui Fang as assistants to general manager.

During the Reporting Period and up to the date of this results announcement, the changes in the Directors, Supervisors and senior management of the Company are as follows:

Changes of Directors

Upon the recommendation of the Board of Directors, Ms. Zhang Haiyan was elected as independent non-executive Director at the 2022 third extraordinary general meeting of the Company held on 30 November 2022. The qualification of Ms. Zhang as independent non-executive Director was approved by the Shandong Office of CBIRC on 13 April 2023. Pursuant to the relevant provisions of the applicable laws and regulations and the articles of association of the Company (the “**Article of Association**”), Mr. Yen Huai-chiang ceased to serve as an independent non-executive Director of the Company, chairperson of the trust committee and member of the nomination and remuneration committee of the Company due to the expiry of his term of office following the approval of Ms. Zhang’s qualification by the Shandong Office of CBIRC.

Upon the recommendation of the Board of Directors, Ms. Liu Wanwen was elected as independent non-executive Director at the 2023 first extraordinary general meeting of the Company held on 31 October 2023. The qualification of Ms. Liu as independent non-executive Director was approved by the Shandong Office of the National Financial Regulatory Administration on 26 December 2023. Pursuant to the relevant provisions of the applicable laws and regulations and the Articles of Association, Ms. Meng Rujing ceased to serve as an independent non-executive Director, members of the nomination and remuneration committee and the Audit Committee of the Company due to the expiry of her term of office following the approval of Ms. Liu’s qualification by the Shandong Office of the National Financial Regulatory Administration.

Due to work arrangement, Mr. Wan Zhong ceased to be the chairperson of the Board of Directors, an executive Director, the chairperson of the strategies and risk management committee and a member of the nomination and remuneration committee of the Company with effect from 10 November 2023. As recommended by the Board of Directors, Mr. Yue Zengguang has been elected as an executive Director and the chairperson of the Board of Directors at the 2023 second extraordinary general meeting of the Company held on 28 November 2023. The qualification of Mr. Yue as an executive Director and the chairperson of the Board of Directors has been approved by the Shandong Office of the National Financial Regulatory Administration on 10 January 2024.

Changes of Supervisors

Mr. Hou Zhenkai tendered his resignation as a shareholder representative Supervisor with effect from 16 May 2023 due to work adjustment. Mr. He Shuguang was considered and approved by the shareholders at the 2022 annual general meeting as a shareholder representative Supervisor with effect from 14 June 2023.

Changes of Senior Management

The Company held a meeting of the Board of Directors on 26 August 2021, considered and approved the Resolution on Appointment of Deputy General Manager of the Company, and agreed to appoint Mr. Qi Guanyi as a vice general manager of the Company. The qualification of Mr. Qi Guanyi was approved by the Shandong Office of CBIRC on 8 March 2023. The Company convened a meeting of the Board of Directors on 13 December 2023, considered and approved the Resolution on the Dismissal of Deputy General Manager (Professional Manager) Qi Guanyi. Due to personal reasons, Mr. Qi Guanyi will no longer serve as the vice general manager of the Company.

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

6. CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix C1 to the Listing Rules as its own corporate governance code.

Pursuant to Code C.2.1 of Part 2 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Since 10 November 2023, as Mr. Wan Zhong ceased to be the chairperson of the Company, in order to ensure the orderly operation of corporate governance, Mr. Fang Hao, an executive director and the general manager of the Company, acts as the chairperson of the Company in accordance with the relevant laws and regulations. His term of office commenced from 10 November 2023 until the qualification of the new chairperson is approved and shall not exceed six months. During Mr. Fang Hao's tenure of office as the chairperson, notwithstanding the deviation from the code provisions, under the supervision of the Board of Directors which comprises one executive Director, three non-executive Directors and three independent non-executive Directors, the Board of Directors is appropriately structured with balance of power to provide sufficient check and balance to protect the interests of the Company and the shareholders.

The qualifications of Mr. Yue Zengguang, the new chairperson of the Company, as an executive Director and chairperson have been approved by the Shandong Office of the National Financial Regulatory Administration, and took effect on 10 January 2024. Since then, Code C.2.1 of Part 2 of the Corporate Governance Code has been satisfied.

Save as disclosed above, the Company has been in compliance with all code provisions as set out in the Corporate Governance Code during the Reporting Period. The Company will continue to review and monitor its corporate governance practice in order to ensure the compliance with the Corporate Governance Code.

7. MODEL CODE FOR CONDUCTING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as the code of conduct for its Directors and Supervisors to conduct securities transactions. Upon specific enquiries made by the Company to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they had complied with the required standard as set out in the Model Code during the Reporting Period.

During the Reporting Period, the Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standard as set out in the Model Code for the compliance by its employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company’s securities.

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

During the Reporting Period, the Company did not purchase, sell or redeem any of the Company’s listed securities.

9. SIGNIFICANT EVENTS

9.1 Change of Registered Capital and Capital Structure and Change of Shareholding of Shareholders

During the Reporting Period, there is no change in the Company’s registered capital, capital structure or shareholding of shareholders.

9.2 Changes in Basis of Preparation of Financial Statements and Adoption of CASBE

Since the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), the Company has been preparing its financial statements in accordance with CASBE and International Financial Reporting Standards (“**IFRS**”). According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Hong Kong Stock Exchange and the Pilot Work Plan for Accounting Firms Engaged in Audit Business for H Share Enterprises (《會計師事務所從事H股企業審計業務試點工作方案》) issued by the Ministry of Finance and the CSRC, the issuers incorporated in mainland China and listed in Hong Kong are approved to adopt CASBE to prepare their financial statements, and China accounting firms recognised by the Ministry of Finance and the CSRC are approved to adopt CASBE to audit such financial statements.

In view of the fact that the Company mainly conducts its business in mainland China and for the sake of facilitating the understanding and provision of more concise and understandable accounting information to users of the financial statements (including domestic and overseas investors), the Board of Directors proposed to change the basis of preparation of the financial statements of the Company from both IFRS and CASBE and the applicable laws and regulations to CASBE and the applicable laws and regulations only. The proposed adoption of CASBE and the relevant amendments to the Articles of Association have been considered and approved by the shareholders at the 2022 annual general meeting held on 14 June 2023 and became effective since 11 August 2023 when the Shandong Office of the National Financial Regulatory Administration approved the relevant amendments to the Articles of Association.

Certain financial items of the Company are adjusted upon the Company's adoption of CASBE. In view of this, the Company would like to provide further information to illustrate the major differences between the financial statements of the Company under CASBE and IFRS, and the relevant differences are explained as follows:

Accounting treatment for changes in shareholding and share of the investor due to capital increase of the investee by other shareholders under the equity method of long-term equity investments

Under CASBE, the investor shall adjust the carrying amount of the long-term equity investments according to the proportion of equity held, and at the same time, it shall be included in the capital reserve (other capital reserve). Under IFRS, the investor shall adjust the carrying amount of the long-term equity investments according to the proportion of equity held, and at the same time, it shall be included in the investment income.

To the best of the Directors' knowledge, information and belief, the preparation of all financial statements of the Company in accordance with CASBE would not have any material impact on the financial position, operating results and cash flow of the Company in 2023 and in the future. The Board of Directors considers that the adoption of CASBE is in the interests of the Company and its shareholders as a whole.

9.3 Proposed Amendments to the Articles of Association, the Procedural Rules for the Board of Directors, the Procedural Rules for the Board of Supervisors and the Procedural Rules for the General Meeting

In 2022, the Company amended the Articles of Association according to the Provisional Measures of Equity Management of Trust Companies (《信託公司股權管理暫行辦法》) and other laws and regulations, as well as the latest regulatory provisions, combining the corporate governance practice of the Company (the “**2022 Amendments to the Articles of Association**”). Based on the 2022 Amendments to the Articles of Association, the Board of Directors and the Board of Supervisors proposed to amend the relevant provisions in the Procedural Rules for the General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors, respectively. The 2022 Amendments to the Articles of Association have been considered and approved by the Shareholders at the 2022 fourth extraordinary general meeting convened on 29 December 2022, and were approved by the Shandong Office of CBIRC on 3 April 2023. The relevant amendments to the Procedural Rules for the Board of Directors, the Procedural Rules for the Board of Supervisors and the Procedural Rules for the General Meeting have been considered and approved by the Shareholders at the 2022 fourth extraordinary general meeting convened on 29 December 2022, and were effective from the same day of the approval of the 2022 Amendments to the Articles of Association.

In view of the aforesaid changes in the basis of preparation of the financial statements, the Company also proposes to amend the relevant provisions of the Articles of Association in relation to the preparation of the financial statements of the Company to comply with CASBE and the applicable laws and regulations. In addition to the proposed change in the basis of preparation of the financial statements, the Board of Directors also proposed to amend the relevant provisions of the Articles of Association in respect of the following matters: (i) specifying the time limit for shareholders to notify the Company in writing under specified circumstances in accordance with the Provisional Measures of Equity Management of Trust Companies; (ii) in order to strengthen the prior control of major events of the Company, improve the corporate governance structure and enhance the quality and efficiency of decision-making of the Company, the Company intends to cease the establishment of the business decision committee of the Board of Directors and adjust the Procedural Rules for the Board of Directors with reference to the requirements of

corporate governance of state-owned enterprises and industry regulatory policies; and (iii) the amendments to the Articles of Association in accordance with the opinion of the Shandong Office of CBIRC (the “**2023 First Amendments to the Articles of Association**”). The 2023 First Amendments to the Articles of Association were considered and approved by the shareholders at the 2022 annual general meeting held on 14 June 2023, and approved by the Shandong Office of the National Financial Regulatory Administration on 11 August 2023. In view of the 2023 First Amendments to the Articles of Association, the Board of Directors also proposed to make corresponding amendments to the Procedural Rules for the Board of Directors. The relevant amendments to the Procedural Rules for the Board of Directors were considered and approved by the shareholders at the 2022 annual general meeting held on 14 June 2023, and became effective on the same date as the 2023 First Amendments to the Articles of Association were approved.

On 17 February 2023, the State Council of the People’s Republic of China (the “**State Council**”) promulgated the Decision of the State Council to Repeal Certain Administrative Regulations and Documents (《國務院關於廢止部分行政法規和文件的決定》) (the “**Decision**”), which includes repealing the Special Regulations of the State Council Concerning the Overseas Offering and Listing of Shares by Limited Stock Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) issued by the State Council on 4 August 1994. On the same day, the CSRC published the Interim Measures for the Administration of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the “**Interim Measures**”) and related guidelines, which include the repeal of the Notice on the Implementation of the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (《關於執行〈到境外上市公司章程必備條款〉的通知》). The Decision and the Interim Measures became effective on 31 March 2023 (the “**PRC Regulatory Changes**”). As at the effective date of the Decision and the Interim Measures, a PRC issuer is required to formulate its articles of association with reference to the Guidelines for Articles of Association of Listed Companies (《上市公司章程指引》) instead of the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the “**Mandatory Provisions**”). In light of the above PRC Regulatory Changes, the Hong Kong Stock Exchange has also proposed certain amendments to the Listing Rules, including, among others, removing the class meeting requirement and other relevant requirements in relation to the issue and repurchase of shares by a PRC issuer and removing the requirement that the articles of association of a PRC issuer must contain the Mandatory Provisions and other ancillary provisions. The amendments became effective on 1 August 2023.

Pursuant to the PRC Regulatory Changes, Domestic shares and H shares are the same class of ordinary shares under PRC law, and the holders of Domestic shares and H shares are no longer regarded as different classes of shareholders, so the substantive rights incidental to these two shares, including the rights as to voting, dividends and distribution of assets on liquidation, are the same. According to the consultation paper on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers issued by the Hong Kong Stock Exchange on 24 February 2023, the removal of the class meeting provisions will not prejudice the protection of H shareholders, and the removal of the class meeting provisions is consistent with the existing arrangements of the existing non-PRC issuers with dual listing on both the PRC stock exchange and the Hong Kong Stock Exchange. There is no requirement under the PRC regulations (and the Listing Rules) that shares listed on different stock exchanges shall be regarded as different classes of shares. Therefore, the Company decided to make preliminary amendments to the Articles of Association in accordance with the PRC Regulatory Changes, and to remove the requirements in relation to class shareholders and convening class meetings.

In addition, pursuant to the consultation conclusion on the Proposals to Expand the Paperless Listing Regime and Other Rule Amendments published by the Hong Kong Stock Exchange in June 2023, the amendments to the Listing Rules took effect on 31 December 2023, such that, among other things, subject to compliance with all applicable laws and rules, a listed issuer must (i) send or otherwise make available the relevant corporate communications (as defined in the Listing Rules) to the relevant holders of its securities by electronic means, or (ii) make available the relevant corporate communications on its own website and the website of the Hong Kong Stock Exchange. The listed issuer is required to make any necessary changes to its constitutional documents in order to comply with such requirements before its first annual general meeting held after 31 December 2023.

In addition to the above amendments, the Board of Directors also proposed to make amendments to the relevant articles of the Articles of Association in respect of the following matters: (i) “trust committee” under the Board of Directors be renamed as “trust and consumer rights protection committee” in accordance with the requirements of the Guiding Opinions of the CBIRC on Strengthening the Construction of the Working System and Mechanism for Consumer Rights Protection of Banking and Insurance Institutions (《中國銀保監會關於銀行保險機構加強消費者權益保護工作體制機制建設的指導意見》) (Yin Bao Jian Fa [2019] No. 38); (ii) further standardise the relevant provisions of the Articles of Association on the Party organisation in accordance with the latest laws and regulations; and

(iii) the “CBIRC” in the Articles of Association be changed to “National Financial Regulatory Administration” in accordance with the reform of the regulatory authorities (the “**2023 Second Amendments to the Articles of Association**”). The 2023 Second Amendments to the Articles of Association has been considered and approved by the shareholders at the 2023 second extraordinary general meeting held on 28 November 2023, and is subject to the approval by the Shandong Office of the National Financial Regulatory Administration. Based on the 2023 Second Amendments to the Articles of Association, the Company also proposed to make corresponding amendments to the Procedural Rules for General Meetings, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors. The amendments to the relevant Procedural Rules for General Meetings, the Procedural Rules for the Board of Directors and the Procedural Rules for the Board of Supervisors were considered and approved by the shareholders at the 2023 second extraordinary general meeting held on 28 November 2023, and is subject to the approval of the 2023 Second Amendments to the Articles of Association.

Save for the above, during the Reporting Period and up to the date of this results announcement, there was no material change in the Articles of Association. A copy of Articles of Association is available on the websites of the Company and Hong Kong Stock Exchange.

9.4 Change of Overseas Auditor

In view of the above changes in the standards for the preparation of the financial statements of the Company, the Board of Directors also proposed to change the overseas auditor of the Company from SHINEWING (HK) CPA Limited to ShineWing Certified Public Accountants LLP. ShineWing Certified Public Accountants LLP is a certified public accounting firm approved by the Ministry of Finance and CSRC and is qualified to adopt CASBE to provide auditing services for enterprises incorporated in mainland China and listed in Hong Kong. Upon consideration and approval of the proposed change of overseas auditor by the shareholders at the 2022 annual general meeting held on 14 June 2023, ShineWing Certified Public Accountants LLP has become the only auditor auditing the financial statements of the Company in accordance with CASBE and will assume the duties of an overseas auditor in accordance with the Listing Rules.

ShineWing Certified Public Accountants LLP has been appointed as the auditor to audit the financial information of the Company for the year ended 31 December 2023 prepared in accordance with CASBE. ShineWing Certified Public Accountants LLP has audited the accompanying financial statements, which was prepared in accordance with CASBE.

9.5 Material Legal Proceedings and Arbitration

As at 31 December 2023, the Company, being the plaintiff and applicant, was involved in 14 pending material litigations or arbitration cases, of which the amount in dispute was more than RMB10 million; the value of the litigation or arbitration cases in which the Company was involved totalled approximately RMB3,394.3 million. These cases were mainly brought by the Company against the relevant counterparty clients due to their failure to repay the loans granted by the Company's trusts.

As at 31 December 2023, the Company, being the defendant, was involved in one pending material litigation case, of which the amount in dispute was more than RMB10 million; the value of the litigation case in which the Company was involved totalled approximately RMB30 million. The case was contractual disputes.

9.6 Material Disposal of Assets

The Company entered into an equity transfer agreement with Shandong Lucion Investment Holdings Group Co., Ltd. (“**Lucion Group**”) on 25 November 2022 (the “**Equity Transfer Agreement**”), pursuant to which the Company conditionally agreed to sell and Lucion Group conditionally agreed to acquire 500,000,000 ordinary shares of Shandong Financial Asset Management Co., Ltd. at a consideration of RMB675,177,700 (the “**Equity Transfer**”).

The Equity Transfer constitutes a notifiable transaction of the Company under Chapter 14 of the Listing Rules. Since Lucion Group is a controlling shareholder of the Company, it is therefore a connected person of the Company under the Listing Rules. Thus, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceeds 25% but all are less than 75%, the Equity Transfer constitutes a major transaction and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively, and is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under the Listing Rules.

The Equity Transfer Agreement and the transactions contemplated thereunder have been considered and approved by independent shareholders at the 2022 fourth extraordinary general meeting held on 29 December 2022.

The Company entered into a debt transfer agreement with Weifang Gaoteng Real Estate Development Co., Ltd. (濰坊高騰房地產開發有限公司) (the “**Purchaser**”) on 13 October 2023 (the “**Debt Transfer Agreement**”), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire Yuerong No.26 Debt, i.e. the asset of creditor’s rights and its ancillary interests owned in full by the Company as at the benchmark date (i.e. 30 September 2023) pursuant to the debt confirmation contracts and judgement instruments in relation to Yuerong No.26 Trust Scheme at a consideration of RMB99,560,222.22 (the “**Debt Transfer**”).

The Debt Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Since one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Debt Transfer Agreement and the transaction contemplated thereunder exceeds 5% but all are less than 25%, the Debt Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under the Listing Rules.

Save as disclosed in this results announcement, during the Reporting Period, the Company had no material assets acquisition, sale and merger.

9.7 Penalties Imposed on the Company and its Directors, Supervisors and Senior Management

On 19 June 2023, the Shandong Office of the National Financial Regulatory Administration issued the “Administrative Penalty Decision” (Lu Yin Bao Jian Fa Jue Zi [2023] No. 84) to the Company and imposed a fine of RMB400,000 for violating prudent business rules and failing to effectively implement regulatory requirements on individual projects. The Company has paid the above fine.

Save as disclosed above, during the Reporting Period, the Company and its Directors, Supervisors and senior management have not been imposed any penalties.

9.8 Provisional Report on Material Issues

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

9.9 Important Information which the NFRA and its Provincial Offices Considered Necessary to Inform Clients and Stakeholders

Save as disclosed in this results announcement, for the year ended 31 December 2023, the Company did not have other important information which the NFRA and its provincial offices considered necessary to inform clients and stakeholders.

9.10 Rectification Opinion Issued by the NFRA and its Local Offices upon Inspection of the Company

In January, April, July and October 2023, the Shandong Office of the National Financial Regulatory Administration conducted quarterly on-site inspections of the Company's business, and the Company actively cooperated with the Shandong Office of the National Financial Regulatory Administration to complete the inspection work.

In 2023, the Company received a total of seven regulatory opinion documents issued by the Shandong Office of the National Financial Regulatory Administration, concerning risk management, product introduction and other aspects. The Company actively carried out rectification work in accordance with regulatory requirements, and relevant reports or rectification plans have been submitted to the Shandong Office of the National Financial Regulatory Administration in a timely manner.

10. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, the Company had no material matters subsequent to the Reporting Period.

11. EXTRACT OF ANNUAL FINANCIAL STATEMENTS

The accompanying notes form part of the consolidated financial statements.

11.1 Consolidated Income Statement

				<i>Unit: RMB</i>
Item	Note	2023	2022	
I. Total operating income		1,190,457,227.88	1,508,705,858.21	
Net interest income	10	100,234,903.04	-76,620,901.76	
Including: Interest income	10	192,202,677.40	62,740,895.84	
Interest expense	10	91,967,774.36	139,361,797.60	
Net fee and commission income	11	766,121,700.97	981,742,563.99	
Including: Fee and commission income	11	771,124,666.23	990,286,183.81	
Fee and commission expenses	11	5,002,965.26	8,543,619.82	
Investment income (losses indicated in "-")	12	72,373,260.70	520,345,041.57	
Including: Income from investment in associates and joint ventures		10,192,627.15	176,985,273.73	
Net exposure hedging gains (losses indicated in "-")		-	-	
Other income		-	-	

Item	Note	2023	2022
Gains from changes in fair value (losses indicated in “-”)	13	212,740,173.75	40,217,959.53
Gains from changes in net assets attributable to third-party investors in consolidated structured entities (losses indicated in “-”)		26,262,792.35	35,053,235.73
Exchange gains (losses indicated in “-”)		0.16	0.83
Other operating income		12,677,482.99	7,794,603.68
Gains on disposal of assets (losses indicated in “-”)		46,913.92	173,354.64
II. Total operating costs		781,109,822.55	915,974,057.74
Taxes and surcharges	14	8,356,011.92	12,911,502.03
Business and administrative expenses	15	269,073,176.25	283,454,606.90
Credit impairment losses	16	500,461,628.77	618,726,361.04
Impairment losses on other assets		-	-
Other operating costs		3,219,005.61	881,587.77
III. Operating profit (losses indicated in “-”)		409,347,405.33	592,731,800.47
Add: Non-operating income		2,935,017.87	621,059.83
Less: Non-operating expenses	17	122,131,726.49	2,119,101.49
IV. Total profit (total losses indicated in “-”)		290,150,696.71	591,233,758.81
Less: Income tax expenses	18	131,517,149.99	310,804,362.67
V. Net profit (net loss indicated in “-”)		158,633,546.72	280,429,396.14
(I) Categorised by the nature of continuing operations		158,633,546.72	280,429,396.14
1. Net profit from continuing operations (net loss indicated in “-”)		158,633,546.72	280,429,396.14
2. Net profit from discontinued operations (net loss indicated in “-”)		-	-
(II) Categorised by ownership		158,633,546.72	280,429,396.14
1. Net profit attributable to owner of the parent company (net loss indicated in “-”)		158,633,546.72	280,429,396.14
2. Profit or loss attributable to non-controlling interests (net loss indicated in “-”)		-	-
VI. Other comprehensive income, net of tax		-3,523,457.79	-1,570,919.47
Other comprehensive income attributable to the owner of the parent company, net of tax		-3,523,457.79	-1,570,919.47

Item	Note	2023	2022
(I) Other comprehensive income that cannot be reclassified to profit or loss		-	-
1. Changes from recalculation of defined benefit plan		-	-
2. Other comprehensive income that cannot be reclassified to profit or loss under equity method		-	-
3. Change in fair value of other equity instrument investments		-	-
4. Change in fair value of credit risk of corporate		-	-
5. Other		-	-
(II) Other comprehensive income that will be reclassified to profit or loss		-3,523,457.79	-1,570,919.47
1. Other comprehensive income that can be reclassified to profit or loss under equity method		-3,523,457.79	-1,570,919.47
2. Change in fair value of other debt investments		-	-
3. Financial assets reclassified into other comprehensive income		-	-
4. Credit impairment provision for other debt investments		-	-
5. Hedging reserves from cash flows (effective part of cash flow hedging profit or loss)		-	-
6. Differences on translation of foreign currency financial statements		-	-
7. Other		-	-
Net other comprehensive income after tax attributable to non-controlling interests		-	-
VII. Total comprehensive income		155,110,088.93	278,858,476.67
Total comprehensive income attributable to the owner of the parent company		155,110,088.93	278,858,476.67
Total comprehensive income attributable to non-controlling interests		-	-
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)		0.03	0.06
(II) Diluted earnings per share (RMB/share)		0.03	0.06

11.2 Consolidated Balance Sheet

Unit: RMB

Item	Note	31 December 2023	31 December 2022
Assets:			
Monetary assets	3	283,896,884.51	2,240,590,484.12
Clearing settlement funds		-	-
Precious metal		-	-
Interbank lendings		-	-
Derivative financial assets		-	-
Accounts receivable		172,532,366.53	148,127,333.84
Contract assets		-	-
Financial assets purchased under resale agreements		395,049,249.50	357,260,491.66
Assets classified as held for sale		-	675,177,700.00
Loans and advances to customers	4	2,201,525,213.77	1,023,971,094.19
Financial Investments:			
Financial assets held for trading	5	4,506,454,958.18	4,082,960,835.53
Debt investments	6	4,507,256,604.08	3,832,734,832.93
Other debt investments		-	-
Other equity instrument investments		-	-
Long-term equity investments	7	844,069,102.22	903,107,179.86
Investment properties		212,820,911.67	137,608,274.04
Fixed assets		42,637,817.33	127,797,634.76

Item	Note	31 December 2023	31 December 2022
Construction in progress		-	-
Right-of-use assets		47,525,901.92	69,561,255.56
Intangible assets		40,979,199.34	29,095,856.02
Long-term amortisation expenses		20,814,361.23	31,411,425.43
Deferred income tax assets		597,414,403.37	558,385,133.18
Other assets		295,907,337.56	240,342,741.66
Total assets		14,168,884,311.21	14,458,132,272.78
Liabilities:			
Short-term borrowings	8	974,779,055.55	2,005,323,555.59
Interbank borrowings		-	-
Financial liabilities held for trading		-	-
Derivative financial liabilities		-	-
Financial assets sold under repurchase agreements		-	-
Employment benefits payable		74,580,027.40	84,252,667.37
Taxes payable		119,927,475.98	270,195,144.91
Accounts payable		17,560,929.05	19,015,634.00
Contract liabilities		18,162,088.23	36,220,691.99
Liabilities held for sale		-	-
Provisions	9	120,809,836.02	-
Long-term borrowings		-	-
Bonds payable		-	-
Including: Preferred shares		-	-
Perpetual bonds		-	-
Leases liabilities		39,059,410.21	60,356,150.44
Deferred income tax liabilities		-	-
Other liabilities		1,714,627,528.29	1,048,500,556.93
Total liabilities		3,079,506,350.73	3,523,864,401.23
Shareholders' equity:			
Paid up capital		4,658,850,000.00	4,658,850,000.00
Other equity instruments		-	-
Including: Preferred shares		-	-
Perpetual bonds		-	-
Capital reserve		160,049,183.05	160,049,183.05
Less: Treasury shares		-	-
Other comprehensive income		-5,253,999.65	-1,730,541.86
Surplus reserve		1,002,840,747.87	979,430,230.51
Trust compensation provision		753,171,982.16	729,761,464.80

Item	Note	31 December 2023	31 December 2022
General risk provision		594,239,495.47	524,007,943.40
Undistributed profit		3,925,480,551.58	3,883,899,591.65
Total shareholders' equity attributable to the parent company		11,089,377,960.48	10,934,267,871.55
Minority interests		-	-
Total shareholders' equity		11,089,377,960.48	10,934,267,871.55
Total liabilities and shareholders' equity		14,168,884,311.21	14,458,132,272.78

11.3 Notes to Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

I. BASIC INFORMATION ABOUT THE COMPANY

Shandong International Trust Co., Ltd. (the “**Company**”) is a non-bank financial institution incorporated in Shandong Province, the People’s Republic of China (the “**PRC**”) on 10 March 1987 with the approval from People’s Bank of China and Shandong Provincial Government.

The Company was transformed from a wholly state-owned company to a limited liability company in August 2002 and further transformed to a joint stock limited company in July 2015. The Company completed its public offering on 8 December 2017 and its shares were listed on The Stock Exchange of Hong Kong Limited on the same day. As at 31 December 2023, the amount of share capital of the Company was RMB4,658,850,000.00 with a par value of RMB1 per share.

The Company operates under the financial service certificate No. 01052451 issued by the former China Banking Regulatory Commission (hereinafter referred to as the “**former CBRC**”) in November 2022. As approved by the former CBRC, the principal activities of the Company include trust business and proprietary business. Trust business is the Company’s core business. As the trustee, the Company accepts entrustment of funds and property from its trustor clients and manages such entrusted funds and property to satisfy its trustor clients’ financing, investment and wealth management needs. The proprietary business focuses on allocating its proprietary assets into different asset classes and investing in businesses with strategic value to its trust business in order to maintain and increase the value of its proprietary assets.

Registered office: Partial area of 1/F, 2/F and 13/F, 32-35/F and 40/F, Tower A, No. 2788 Aoti West Road, Lixia District, Jinan

Legal representative: Yue Zengguang

Registered capital: RMB4,658.85 million

The Company belongs to the trust industry. 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).

The parent company of the Company is Shandong Lucion Investment Holdings Group Co., Ltd. (hereinafter referred to as “**Lucion Group**”). The controlling shareholder of Lucion Group is Shandong Provincial Department of Finance.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the MOF on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “**ASBE**”).

(2) Going concern

The Company has the ability to continue as a going concern for at least 12 months from the end of the Reporting Period, and there is no significant event that affects the ability to continue as a going concern.

3 MONETARY ASSETS

Item	Closing balance	Opening balance
Cash on hand		
Bank deposits	219,277,117.03	436,339,318.04
Other monetary assets	64,619,767.48	1,804,251,166.08
Total	<u>283,896,884.51</u>	<u>2,240,590,484.12</u>

Including: Total amount deposited overseas

Note 1: As at 31 December 2023, bank deposits attributable to the consolidated structured entities amounted to RMB51 million (31 December 2022: RMB31 million). These bank deposits belong to trust assets. According to the Trust Law of the People’s Republic of China, trust assets are separate from all properties owed by the trustee (the “**proprietary assets**”) and are separately managed and accounted.

Note 2: As at 31 December 2023, the Group’s funds in bank account of RMB115,000,000.00 were frozen due to litigation.

Note 3: Other monetary assets are deposits with securities companies.

4 LOANS AND ADVANCES TO CUSTOMERS

Item	Book balance	Closing balance Impairment provision	Carrying amount
Principal	2,428,707,215.22	339,298,759.90	2,089,408,455.32
Interest receivable	125,370,637.71	13,253,879.26	112,116,758.45
Total	<u>2,554,077,852.93</u>	<u>352,552,639.16</u>	<u>2,201,525,213.77</u>

Item	Book balance	Opening balance Impairment provision	Carrying amount
Principal	1,238,307,700.00	229,178,466.82	1,009,129,233.18
Interest receivable	15,708,960.54	867,099.53	14,841,861.01
Total	<u>1,254,016,660.54</u>	<u>230,045,566.35</u>	<u>1,023,971,094.19</u>

5 FINANCIAL ASSETS HELD FOR TRADING

Item	Closing balance	Opening balance
Financial assets at FVTPL	4,506,454,958.18	4,082,960,835.53
Including: Stock investments	1,481,480,500.44	43,366,067.00
Public fund investments	783,319,294.32	1,472,193,837.84
Investment in asset management scheme	937,216,509.01	697,700,734.59
Bond investments	11,628,084.26	390,546,036.30
Equity investments in unlisted companies	661,871,769.23	596,213,826.59
Trust Industry Protection Fund	112,308,002.18	109,880,741.47
Investments in trust schemes	518,630,798.74	773,059,591.74
Total	<u>4,506,454,958.18</u>	<u>4,082,960,835.53</u>

6 DEBT INVESTMENTS

Item	Book balance	Closing balance Impairment provision	Carrying amount
Principal	6,813,114,600.48	2,321,985,255.43	4,491,129,345.05
Interest receivable	17,822,396.37	1,695,137.34	16,127,259.03
Total	<u>6,830,936,996.85</u>	<u>2,323,680,392.77</u>	<u>4,507,256,604.08</u>

Item	Book balance	Opening balance Impairment provision	Carrying amount
Principal	6,005,546,009.26	2,176,001,905.89	3,829,544,103.37
Interest receivable	3,357,472.34	166,742.78	3,190,729.56
Total	<u>6,008,903,481.60</u>	<u>2,176,168,648.67</u>	<u>3,832,734,832.93</u>

7 LONG-TERM EQUITY INVESTMENTS

Item	Closing balance	Opening balance
Associates accounted for using the equity method directly invested by the Company	521,590,675.22	515,702,755.86
Enterprises invested by the consolidated structured entities	322,478,427.00	387,404,424.00
Total	844,069,102.22	903,107,179.86

8 SHORT-TERM BORROWINGS

(1) The category of short-term borrowings

Loan category	Closing balance	Opening balance
Borrowings from China Trust Protection Fund Co., Ltd.	974,779,055.55	2,005,323,555.59
Total	974,779,055.55	2,005,323,555.59

(2) The Group had no overdue and outstanding short-term borrowings at the end of the year.

9 PROVISIONS

Item	Closing balance	Opening balance	Reason
Litigation compensation	120,809,836.02	–	Litigation
Total	120,809,836.02	–	–

Note 1: On 22 May 2023, the Intermediate People’s Court of Binzhou City, Shandong Province issued a judgment on the case of a private lending dispute between Shandong Qixing Real Estate Company (“**Shandong Qixing**”) and Rizhao Hainadijing Real Estate Co., Ltd. (“**Rizhao Dijing**”), Shandong Haina Real Estate Co., Ltd. (“**Haina Real Estate Company**”) and our Company, which upheld the first instance judgment that our Company shall assume the supplementary compensation liability for the payment of the loan principal of RMB100 million and related interest by Rizhao Dijing to Shandong Qixing. As the bank deposit of the Company of RMB115,000,000.00 has been frozen by The Intermediate People’s Court of Binzhou City, Shandong Province, the Company has made provision for estimated liabilities of RMB116,270,547.95 based on the current progress. The Company has submitted an application for procuratorial supervision to the Binzhou Municipal People’s Procuratorate regarding the judgment of the Binzhou Court, and in December 2023, the Binzhou Municipal People’s Procuratorate has decided to accept the application for supervision and to review the case.

Note 2: On 25 December 2023, the Intermediate People’s Court of Rizhao City, Shandong Province issued a judgment on the case of dispute of shareholders damage to the interests of the Company creditors between Rizhao Dianjin Supply Chain Management Co., Ltd.* (“**Rizhao Dianjin**”) (日照點金供應鏈管理有限公司) and Haina Real Estate Company, Shanghai Nuosheng Investment Management Co., Ltd. *(上海諾晟投資管理有限公司) and our Company, which upheld the first instance judgment that our Company shall bear joint and several liability for the remaining debt principal of RMB106,010.00 for Rizhao Dijing owed to Rizhao Dianjin, as well as the penalty for breach of contract and debt interest during the delayed performance period. The Company has made provision for estimated liabilities of RMB4,539,288.07 based on the current progress. The Company has made a retrial request to the Intermediate People’s Court of Rizhao City, and applied to the Procuratorate of Rizhao City for procuratorial supervision, which is currently in the process of review.

10 NET INTEREST INCOME

Item	Year 2023	Year 2022
Interest income	192,202,677.40	62,740,895.84
Including: Cash and bank balances	2,174,320.44	2,365,310.85
Loans and advances to customers	97,290,002.58	28,431,930.62
Debt investments	77,542,831.74	10,398,445.00
Financial assets purchased under resale agreements	14,881,808.18	21,042,202.73
Other	313,714.46	503,006.64
Interest expense	91,967,774.36	139,361,797.60
Including: Short-term borrowings	51,153,566.63	114,384,833.35
Income attributable to third-party trust beneficiaries in consolidated structured entities	37,671,426.05	21,952,909.56
Other	3,142,781.68	3,024,054.69
Net interest income	<u>100,234,903.04</u>	<u>-76,620,901.76</u>

11 NET FEE AND COMMISSION INCOME

Item	Year 2023	Year 2022
Fee and commission income	771,124,666.23	990,286,183.81
Including: Trustee’s remuneration	717,391,574.85	961,864,252.36
Other	53,733,091.38	28,421,931.45
Fee and commission expenses	5,002,965.26	8,543,619.82
Including: Guarantee fee	4,443,397.22	8,327,076.10
Other	559,568.04	216,543.72
Net fee and commission income	<u>766,121,700.97</u>	<u>981,742,563.99</u>

12 INVESTMENT INCOME

Item	Year 2023	Year 2022
Income from long-term equity investments accounted for using equity method	10,192,627.15	176,985,273.73
Investment income from holding financial assets	55,289,000.41	98,020,651.25
Investment income from disposal of long term equity investments	5,001,456.31	2,686,121,749.15
Investment income from disposal of loans and other debt investments	1,890,176.83	-2,440,782,632.56
Total	<u>72,373,260.70</u>	<u>520,345,041.57</u>

13 GAINS FROM CHANGES IN FAIR VALUE

Source of gains from changes in fair value	Year 2023	Year 2022
Financial assets held for trading	228,094,670.75	-41,867,490.61
Enterprises invested by the consolidated structured entities	-15,354,497.00	82,085,450.14
Total	<u>212,740,173.75</u>	<u>40,217,959.53</u>

14 TAX AND SURCHARGES

Item	Year 2023	Year 2022
City maintenance and construction tax	3,113,327.12	3,856,240.03
Education surcharges	1,334,283.02	1,652,674.31
Regional education surcharges	889,522.02	1,101,782.86
Property tax	1,897,356.96	1,336,081.39
Stamp duty	993,654.24	4,849,151.64
Land use tax	122,918.56	109,136.80
Vessel and vehicle tax	4,950.00	6,435.00
Total	<u>8,356,011.92</u>	<u>12,911,502.03</u>

15 BUSINESS AND ADMINISTRATION FEES

Item	Year 2023	Year 2022
Employee benefits	122,426,711.27	144,743,853.21
Depreciation and amortisation	57,180,915.46	44,857,941.99
Legal and professional fees	11,117,352.53	18,382,413.36
Network fees	17,895,001.36	16,292,505.15
Promotional expenses	7,003,332.72	9,715,809.45
Lease charges	7,960,763.57	7,733,445.26
Business hospitality expenses	5,656,292.70	7,271,817.21
Travel expense	5,942,465.94	4,253,665.11
Office expenses	3,103,589.72	1,754,029.78
Other	30,786,750.98	28,449,126.38
Total	<u>269,073,176.25</u>	<u>283,454,606.90</u>

16 CREDIT IMPAIRMENT LOSSES

Item	Year 2023	Year 2022
Loss on bad debts of accounts receivable	6,841,644.73	1,603,382.70
Loss on bad debts of other receivables	19,231,572.46	1,630,216.61
Impairment losses on loans and advances to customers	165,006,395.39	445,221,488.26
Impairment losses on debt investments	309,382,016.19	170,271,273.47
Total	<u>500,461,628.77</u>	<u>618,726,361.04</u>

17 NON-OPERATING EXPENSES

Item	Year 2023	Year 2022	Amount included in non-recurring profit or loss for 2023
Compensation cost	120,809,836.02	763,542.05	120,809,836.02
Penalty cost	400,000.00	1,270,000.00	400,000.00
Losses on retirement of non-current assets	921,832.93	85,031.56	921,832.93
Other	57.54	527.88	57.54
Total	<u>122,131,726.49</u>	<u>2,119,101.49</u>	<u>122,131,726.49</u>

18 INCOME TAX EXPENSES

Item	Year 2023	Year 2022
Income tax expense for the year	170,546,420.18	251,481,262.01
Deferred income tax expenses	<u>-39,029,270.19</u>	<u>59,323,100.66</u>
Total	<u>131,517,149.99</u>	<u>310,804,362.67</u>

19 DIVIDENDS

No dividends were paid, declared or proposed by the Company during the year ended 31 December 2023 (the year ended 31 December 2022: Nil), nor has any dividend been proposed since the end of the reporting period. The Directors of the Company have determined that no dividend will be paid in respect of the year ended 31 December 2023.

20 EARNINGS PER SHARE**(1) Basic earnings per share**

Item	Year 2023	Year 2022
Net profit attributable to the ordinary shareholders of the parent company	158,633,546.72	280,429,396.14
Weighted average number of ordinary shares in issue	4,658,850,000.00	4,658,850,000.00
Basic earnings per share	<u>0.03</u>	<u>0.06</u>

(2) Diluted earnings per share

For the twelve months ended 31 December 2023, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

12. THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and conventions adopted by the Company with the management of the Company and the Company's external auditor. The Audit Committee has reviewed the annual results for the year ended 31 December 2023.

13. ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023 PUBLISHED ON THE HONG KONG STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

The annual results announcement for the year ended 31 December 2023 is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.sitic.com.cn). The annual report for the year ended 31 December 2023 which contains all information required by the Listing Rules will be distributed to shareholders and published on the Hong Kong Stock Exchange's website and the Company's website in due course.

By order of the Board
Shandong International Trust Co., Ltd
Yue Zengguang
Chairperson

Jinan, the People's Republic of China
26 March 2024

As at the date of this announcement, the Board comprises Mr. Yue Zengguang and Mr. Fang Hao as executive Directors; Mr. Wang Zengye, Mr. Zhao Zikun and Ms. Wang Bailing as non-executive Directors; Ms. Zhang Haiyan, Mr. Zheng Wei and Ms. Liu Wanwen as independent non-executive Directors.