

LUCION

山東省國際信託股份有限公司

Shandong International Trust Co., Ltd.

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

Stock code: 1697

GLOBAL OFFERING

Joint Sponsors



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	647,075,000 H Shares (comprising 588,250,000 H Shares to be offered by the Company and 58,825,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	64,708,000 H Shares (subject to reallocation)
Number of International Offer Shares	:	582,367,000 H Shares (comprising 523,542,000 H Shares to be offered by the Company and 58,825,000 Sale Shares to be offered by the Selling Shareholders, subject to reallocation and the Over-allotment Option)
Maximum Offer Price	:	HK\$5.43 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	RMB1.00 per H Share
Stock code	:	1697

Joint Sponsors



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies" in Appendix VII, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). Neither the Securities and Futures Commission nor the Registrar of Companies in Hong Kong takes any responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on or around Friday, December 1, 2017, and, in any event, not later than Wednesday, December 6, 2017. The Offer Price will be not more than HK\$5.43 per H Share and is currently expected to be not less than HK\$4.46 per H Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$5.43 per H Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$5.43 per H Share.

If, for any reason, the Offer Price is not agreed by Wednesday, December 6, 2017 between the Joint Representatives (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), the Global Offering will not proceed and will lapse.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where considered appropriate and with our consent (on behalf of ourselves and the Selling Shareholders), reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$4.46 to HK\$5.43) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.slitic.com.cn. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors".

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination". It is important that you refer to that section for further details.

We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk Factors", "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

November 28, 2017

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under
White Form eIPO service through the designated
website www.eipo.com.hk⁽²⁾ 11:30 a.m. on Friday, December 1, 2017

Application lists open⁽³⁾ 11:45 a.m. on Friday, December 1, 2017

Latest time for lodging **WHITE** and **YELLOW** Application
Forms 12:00 noon on Friday, December 1, 2017

Latest time for completing payment of **White Form eIPO**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on Friday, December 1, 2017

Latest time for giving **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Friday, December 1, 2017

Application lists close⁽³⁾ 12:00 noon on Friday, December 1, 2017

Expected Price Determination Date⁽⁵⁾ Friday, December 1, 2017

Announcement of:

(1) the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, December 7, 2017

(2) the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results". Thursday, December 7, 2017

EXPECTED TIMETABLE⁽¹⁾

(3) the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.sitic.com.cn⁽⁶⁾ from Thursday, December 7, 2017

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function from Thursday, December 7, 2017

Dispatch of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾ Thursday, December 7, 2017

Dispatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Thursday, December 7, 2017

Dealings in the H Shares on the Stock Exchange expected to commence at 9:00 a.m. on Friday, December 8, 2017

Notes:

- (1) All times and dates refer to Hong Kong local time and dates, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 1, 2017, the application lists will not open or close on that day. Please see "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists".
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should see "How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS".
- (5) The Price Determination Date is expected to be on or around Friday, December 1, 2017 and, in any event, on or before Wednesday, December 6, 2017. If, for any reason, our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, December 6, 2017, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) H Share certificates will only become valid at 8:00 a.m. on Friday, December 8, 2017 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the Share certificates becoming valid do so at their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on

EXPECTED TIMETABLE⁽¹⁾

application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number invalidates or delays encashment of the refund cheque.

- (9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates (where applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, December 7, 2017 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorized representatives bearing a letter of authorization from their corporation stamped with the company's chop. Both individuals and authorized representatives of corporations must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their or the designated CCASS Participant's stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic application instructions to HKSCC".

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk. Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' own risk, to the addresses specified in the relevant applications on or before Thursday, December 7, 2017.

Further information is set out in "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies".

The above expected timetable is a summary only. You should see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Shandong International Trust Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering. Information contained on our website, located at www.sitic.com.cn, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified by its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment in the Offer Shares. We set out some of the particular risks in investing in the Offer Shares in "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a comprehensive financial and wealth management service provider in China, utilizing our trust products to provide diversified financing and investment services. We ranked 6th among all trust companies the controlling shareholders of which have local government background and ranked 25th among all trust companies in China in terms of total trust assets in 2016 according to Wind Info. As a trust company licensed by the CBRC, we are permitted to provide financing and investing solutions across the real economy, capital markets and money markets in China. We were rated "Class A" (the highest rating attainable) in the industry-wide rating organized by the China Trustee Association under the supervision of the CBRC for the years of 2015 and 2016 based on comprehensive assessment of our capital strength, risk management, incremental value and social responsibility. We were rated "Excellent (AAA)" (the highest rating attainable) in the performance assessment of all local financial institutions in Shandong organized by the Shandong Provincial Finance Bureau in 2016 based on comprehensive assessment of our profitability, asset quality, liquidity and business growth. Following a market-oriented approach, we closely monitor changes in the economic and market conditions in China to identify market opportunities, and have timely and adeptly adjusted our development strategies to grow our business.

We have two major business lines, which are the trust business and proprietary business.

Our Trust Business

Trust business is our core business. We accept entrustment of funds and/or property from our trustor clients and establish trust arrangements through written trust contracts with the trustor clients. As the trustee, we put the entrusted funds and/or property, which are referred to as the trust assets, into active use, such as providing financing to third parties or investing in other types of assets, in order to generate investment returns on the trust assets. We charge fees for management of the trust assets, which are referred to as trustee's remuneration. We receive our trustee's remuneration pursuant to the detailed contract terms of each trusts, typically on a quarterly, semi-annual or annual basis during the term of the trusts and/or upon the liquidation of the relevant trusts. Upon termination of the trust arrangements, we distribute the trust assets, after deducting our trustee's remuneration and other expenses of the trusts, to the trusts' beneficiaries designated by the trustors and achieve the trust purposes as specified in the trust contracts.

Our trust business serves the needs of two types of clients. Firstly, our trusts help our trustor clients to achieve their investment and wealth management and succession goals. Secondly, through flexible financing arrangements, our trusts help satisfy the financing needs of various types of enterprises and institutions in various industries, which are referred to as our counterparty clients. We use the term of "counterparty" under our various trust schemes which typically refers to the entities with which the relevant trust directly transacted. Under our administrative management trusts, counterparties typically refer to the borrowers of the relevant loans granted by trusts or the entities providing the financial products in which the trust assets are invested. Under our financing trusts, counterparties typically refer to the borrowers of the relevant loans granted by the trusts or the entities providing the monetary assets. Under our investment trusts, counterparties typically refer to entities that provide the financial products in which the trusts invest, for example, the security firm initiating the relevant asset management scheme or the general partner of the limited partnership in which the applicable trust invested.

Utilizing the flexibility of trust arrangements under PRC laws and regulations, the wide scope of business activities permitted by our trust license and our strong management capabilities, we have developed a broad range of trust products to satisfy the financing, investment, wealth management and succession needs of our various types of clients. Our trust products may be broadly categorized into the following categories:

SUMMARY

- *Actively managed trusts*, in which we are responsible for or participate in the selection of assets or projects in which the trust assets will be invested in, and we will perform our own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing trust administration services for the trusts, we are also actively involved in the ongoing management and disposal of the trust assets. Our actively managed trusts may be further categorized into:
 - *Financing trusts*, which focus on satisfying the financing needs of our counterparty clients. Our financing trusts provide flexible financing solutions for real estate development projects, government infrastructure projects and various other types of enterprises.
 - *Investment trusts*, which focus on satisfying the investment, wealth management and succession needs of our trustor clients. Our investment trusts include a variety of securities investment trusts, indirect investment trusts and discretionary wealth management trusts with different risk-return profiles that can satisfy the investment and wealth management needs of different trustor clients. Our investment trusts also include family trusts that are established by individual families for wealth inheritance and tax planning purposes.
- *Administrative management trusts*, which serve as a conduit to concurrently satisfy the investment needs of our trustor clients and the financing needs of counterparty clients. Our roles in administrative management trusts are limited to providing trust administration services and accept entrustment of trust assets from trustors to provide financing for projects or enterprises designated by the trustors.

Our income from trust business mainly comes from our trustee's remuneration, which is paid out of trust assets to us. Trust assets under our management is subject to risks of devaluation or loss. For more details, please refer to "Business — Our Trust Business — Basic Construct of Our Trusts — Trust Assets" and the risk factors set out in "Risk Factors." As the trustee, we are required to act in the best interests of the beneficiaries, diligently and effectively manage the trust assets, and act honestly and with due care. We are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee.

We have successfully withstood economic and market fluctuations over the past few years and achieved rapid growth. The trust AUM of all of our trusts increased from RMB112,392 million as of December 31, 2011 to RMB254,637 million as of December 31, 2016, representing a CAGR of 17.8%. During the Track Record Period, the trust AUM of all of our trusts decreased from RMB326,989 million as of December 31, 2014 to RMB240,750 million as of December 31, 2015, then increased to RMB254,637 million as of December 31, 2016, and remained almost unchanged at RMB254,499 million as of May 31, 2017 and the total number of our trusts was 1,010, 785, 796 and 862 as of the respective dates. During the Track Record Period, our average actual trustee's remuneration rate (annualized) decreased from 0.41% in 2014 to 0.37% in 2015, then decreased to 0.33% in 2016, and increased from 0.30% in the five months ended May 31, 2016 to 0.45% in the same period of 2017.

During the Track Record Period, we identified 29 troubled trusts with the aggregate trust AUM of RMB3,306.0 million, and we provided liquidity support to 18 of them with aggregate trust AUM of RMB1,545.7 million and consolidated these 18 troubled trusts in our financial statements. As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our proprietary funds used to provide liquidity support to such troubled trusts amounted to RMB342.2 million, RMB888.2 million, RMB186.1 million and RMB186.1 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, we recognized impairment losses of RMB170.3 million, RMB243.3 million, RMB23.8 million, RMB24.9 million and RMB33.2 million, respectively, on loans granted by the 18 troubled trusts to which we provided liquidity support. We consider various factors, including the status of the collaterals, business prospect and financial position of the counterparties, in determining the future collectability and estimating the impairment allowance. As of December 31, 2014, 2015 and 2016 and May 31, 2017, total assets of such troubled trusts amounted to RMB377.2 million, RMB976.0 million, RMB257.9 million and RMB258.1 million, respectively, and we have made impairment allowances of RMB220.7 million, RMB464.0 million, RMB144.4 million and RMB177.6 million, respectively, to provide for potential losses that we may incur from these loans. We disposed of or plan to dispose of the materialized risks of the remaining 11 troubled trusts through other methods following a market-oriented approach. For more information on the troubled trusts, please refer to "Risk Management — Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management".

SUMMARY

The following table sets forth certain key attributes of administrative management trusts, financing trusts and investment trusts:

	Administrative Management Trusts	Actively Managed Trusts	
		Financing Trusts	Investment Trusts
Trustor client	Mainly corporate and institutional clients	Corporate and institutional clients and HNWI's	
Party who selects the assets/projects in which the trust assets will be invested	Trustor client	Trustee (our Company) ^(Note)	
Typical underlying assets of the trust	Loans, listed equity and debt securities, private equity, securities investment funds, asset management schemes, limited partnership interests, trust schemes, monetary assets	Loans, monetary assets	Listed equity and debt securities, private equity, securities investment funds, asset management schemes, limited partnership interests, trust schemes, monetary assets
Source of assets/ projects in which the trust assets will be invested	Procured by the trustor client	Procured by the trustee (our Company) ^(Note)	
Counterparties	Borrower of the loan granted by the trust or entity providing the financial products in which the trust assets are invested	Borrower of the loan granted by the trust or entity providing the monetary assets	Entity providing the financial products in which the trust assets are invested
Due diligence performed by the trustee (our Company)	The legality of entrusted funds or assets, and the legality of trust purpose	The legality of entrusted funds, the legality of the trust purpose, and the proposed counterparty and project/assets	The legality of entrusted funds, the legality of the trust purpose, the proposed project/assets, the structural design of the relevant asset management schemes or limited partnerships, the experience and investment capability and track record of the counterparty (such as asset management companies or the general partner of limited partnership)
Due diligence performed by the trustor client	The proposed counterparty and project/assets	Trustor clients may or may not perform their own due diligence depending on their internal requirement	
Basis of trustee's remuneration	Trust AUM upon entrustment of the trust assets or a fixed amount	Trust AUM upon entrustment of the trust assets, a fixed amount or, in the case of certain investment trusts, certain percentage of the investment return on the trust assets	

Note:

For actively managed indirect-investment trusts which primarily invest in asset management schemes or limited liability partnerships, the trustee's role is to select the proper asset management companies or investment firms to partner with. The trustee's due diligence thus focuses on the experience and track record of those asset management companies or investment firms, rather than specific assets or projects.

Our Proprietary Business

In managing our proprietary business, we focus on allocating our proprietary assets into different asset classes and investing in businesses with strategic value to our trust business in order to maintain and increase the value of our proprietary assets.

We manage and invest our proprietary assets according to our annual assets allocation plans, which are formulated by our management and approved by our board of directors. We have made strategic long-term investments in a number of financial institutions, which helped us establish stronger business relationships with these financial institutions and created

SUMMARY

synergies for our respective operations. We also invest our proprietary assets in various types of equity products, such as listed shares and mutual funds, as well as wealth management products. We keep a reasonable amount of our proprietary assets in highly liquid form such as deposits at banks and other financial institutions and government bonds purchased under agreement to resell in order to maintain our liquidity and satisfy capital requirement for the expansion of our trust business.

We have substantial influence over some of the investee companies and have been required to use equity method to account for our equity interests in them under IFRSs. Generally, under the equity method, the investments are initially recognized at cost, and the carrying amounts are adjusted thereafter for our share of, among others, (i) the post-acquisition profits or losses of the investee companies, and (ii) other comprehensive income. When our share of losses equals or exceeds our interest in the investee company, including any other unsecured receivables, we do not recognize further losses, unless we have incurred legal or constructive obligations or made payments on behalf of the investee company. See “Financial Information — Principal Components of Consolidated Income Statements — Share of Profit of Investments Accounted for Using the Equity Method” and Note 2.6 and Note 16 to our historical financial information set forth in “Appendix I — Accountant’s Report” for more details about our investments accounted for using the equity method during the Track Record Period. As such, the cash flow from these investments will not be proportionate to their asset values as shown on our statement of financial position. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our share of profits of the investments accounted for using the equity method was RMB94.6 million, RMB175.3 million, RMB138.2 million, RMB54.9 million and RMB60.5 million, respectively, while dividend income generated from such investment amounted to RMB4.85 million, RMB42.37 million and RMB130.34 million for 2014, 2015 and 2016 (nil for the five months ended May 31, 2016 and 2017), respectively. Total amount recognized in our balance sheet as of December 31, 2014, 2015 and 2016 and May 31, 2017 were RMB695.2 million, RMB1,028.1 million, RMB1,566.1 million and RMB1,637.6 million, respectively.

Since we only have substantial influence but not control over these investee companies, we cannot control the business decisions of these investee companies, which could prevent us from profiting from such investments as we anticipated. We may also lose our significant influence over our investments accounted for using equity method in the future. There also can be no assurance that the investee companies will make dividend distribution in the future as we do not have control over the investee companies. In addition, our share of profits or losses accounted for using the equity method is largely dependent on the performance of these investee companies, which are mainly financial institutions, and is subject to various factors beyond our control. Finally, since these investments are not as liquid as other investment products, if we are forced to dispose of any such investment during adverse market conditions, we may incur investment losses if we could not dispose of the investment at an appropriate price. For more details about the risks associated with our equity investment, see “Risk Factors — Risks Relating to Our Business and Industry — We face risks relating to our strategic equity investments.”

To take advantage of the favorable investment returns offered by some of our trust products, and as a support to our core trust business, we allocate some of our proprietary assets to some of the trust schemes managed by us from time to time. In addition, we may use our proprietary funds to provide liquidity support to troubled trusts when we deem appropriate. As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our proprietary funds used to provide liquidity support to such troubled trusts amounted to RMB342.2 million, RMB888.2 million, RMB186.1 million and RMB186.1 million, respectively. When the stakeholding of our proprietary investment in a trust scheme managed by us reaches a certain percentage and after considering several factors such as the scope of our decision-making authority, the rights held by other parties, the remuneration to which we are entitled to and our exposure to variability of returns from other interests that we hold in the trust, we may be required to consolidate the trust scheme in our financial statements as if the trust scheme were our subsidiary. For detailed discussion about impact on our financial statements brought by such consolidation, please refer to “Financial Information — Factors Affecting Our Results of Operations — AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes”.

Our income from proprietary business mainly comes from (i) interests charged by our consolidated trust schemes on financings provided to counterparty clients, (ii) investment income we realize from disposition of various types of financial assets held by our Company and consolidated trust schemes, and (iii) net changes in fair value on our financial assets at fair

SUMMARY

value through profit or loss, which consist mainly of equity investments in listed shares and mutual funds held by our Company and equity investments held by our consolidated trust schemes.

Our Financial Highlights

During the Track Record Period, our total operating income increased from RMB1,766.2 million in 2014 to RMB1,785.7 million in 2015, but decreased to RMB1,327.4 million in 2016, primarily due to decrease in our average trust AUM, trustee's remuneration and interest income as a result of general decrease in financing costs and increased competition among different financing sources in China. Our total operating income increased from RMB377.6 million for the five months ended May 31, 2016 to RMB654.2 million for the five months ended May 31, 2017 primarily due to increase in our average trust AUM and trustee's remuneration as we significantly increased the volume of our actively managed trusts and reduced the volume of our administrative management trusts, which was partially offset by decrease in our investment income. Net profit attributable to the shareholders of our Company increased from RMB985.5 million in 2014 to RMB1,075.5 million in 2015 but decreased to RMB833.0 million in 2016, primarily due to decrease in our total operating income, which was partially offset by decrease in impairment losses on our financial assets. Net profit attributable to the shareholders of our Company increased from RMB282.9 million for the five months ended May 31, 2016 to RMB399.8 million for the five months ended May 31, 2017 primarily due to increase in our total operating income, which was partially offset by increase in impairment losses on our financial assets. We recognized impairment losses on financial assets of RMB186.7 million, RMB251.0 million, RMB40.5 million, RMB28.5 million and RMB70.4 million in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

In addition, we will adopt IFRS 9 from January 1, 2018, which will replace existing guidance we adopted in connection with recognition and measurement of financial instruments. Among others, IFRS 9 includes revised guidance on the classification and measurement of financial instruments, and a new expected credit loss model for calculating impairment on financial assets. The adoption of IFRS 9 is expected to significantly change the way we classify and measure our financial assets, therefore, significantly affect our operating results and financial position. For example, we are required to use more forward-looking information instead of objective evidence of impairment as a precondition for recognizing impairment losses. In particular, calculation of impairment of financial instruments on an expected impairment loss basis will result in an earlier recognition of, and may result in an increase in, impairment allowances. We are assessing the potential impact on our financial statements resulting from the application of IFRS 9 and we have not completed our assessment of the full impact of adopting IFRS 9. Its possible impacts on our operating results and financial position cannot be quantified at current stage. In addition, we are also required to further adjust and improve the flexibility and reliability of our IT systems in order to adapt to the complex calculation environment of IFRS 9. For more details, please also refer to "Financial Information — Principal Components of Consolidated Income Statements — Impact of the Revised IFRS 9 "Financial Instruments"" and Note 2.1 to the Accountants' Report in Appendix I to this prospectus.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- We provide cross-markets, diversified and customized trust products and services to satisfy our clients' various financing and investment needs;
- Flexible development strategies that enable us to continuously capture market opportunities and achieve rapid growth;
- Regional advantages resulting from our base in Shandong and an expansive, nationwide operation;
- Outstanding product development capabilities that help us continuously improve our ability to provide comprehensive services;
- Strong business management capabilities and comprehensive and effective internal control and risk management system; and
- Experienced and innovation-minded senior management and a professional employee team.

SUMMARY

BUSINESS STRATEGIES

We intend to continue to strengthen our traditional business, enhance our active management capabilities, rapidly expand our trust business that provides asset management and wealth management services, capture new business opportunities through continuous innovation, and build up our brand image as a high-quality and trustworthy financial service provider in China. In particular, we plan to adopt the following measures to achieve our business strategies:

- Continue our business transformation and upgrade and elevate our ability to provide comprehensive financial services;
- Strengthen traditional business and accelerate business upgrade;
- Explore new business opportunities and uncover hidden needs for our trust products;
- Enhance our wealth management capabilities and increase coverage of institutional and HNWI clients;
- Enhance our capital base, increase synergies between our proprietary business and trust business, and optimize our strategic layout for equity investments in other financial institutions;
- Establish international businesses at appropriate times to achieve synergy between domestic and international businesses;
- Further improve our risk management and internal control system; and
- Continue to implement our talent development strategy and establish partnership style relationship among our employees.

RISK MANAGEMENT AND NET CAPITAL REQUIREMENTS

We have attached great importance to our risk management system, cultivated a corporate culture that emphasizes strict risk control during our decades of prudent business operation, and established a comprehensive and prudent risk management system, including mechanisms that ensure strict execution and monitoring of our various risk management measures. For trust business, our risk management measures are fully integrated into each step of our business operation from project initiation to trust scheme establishment and subsequent operation and liquidation. We perform comprehensive due diligence on our trustor clients, in particular, the legality of entrusted funds and the legality of the trust purpose, as well as the proposed projects and counterparties of actively managed trusts. We have adopted strict and multi-layer approval processes for different types of trust schemes that involve our various functional departments, mid-level management, senior management and the Board of Directors. We have comprehensive legal documentation to delineate our rights and obligations with those of other parties involved in our trust business and various departments responsible for ensuring compliance with applicable laws, regulations and relevant contracts. We also closely monitor, mitigate, resolve and manage the risks of our trusts after their establishment. For proprietary business, we have designed different internal control mechanisms for different types of proprietary business including granting different level of authorities and requiring different approvals and controls based on the different types and amount of proprietary investments. For additional information, see the section headed "Risk Management".

We have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements, including that (i) our Net Capital shall not be less than RMB200 million, (ii) our Net Capital shall not be less than our total risk-based capital, and (iii) our Net Capital shall not be less than 40% of our net assets. During the Track Record Period, we have complied with all of these requirements and have not received any warnings or penalties from the CBRC in this regard.

Our Net Capital and relevant ratio as reported to the CBRC as of December 31, 2014, 2015, 2016 and June 30, 2017 are as follows:

	As of December 31,			As of June 30,	CBRC Requirements
	2014	2015	2016	2017	
	(RMB In millions except percentages)				
Net Capital	3,962.5	4,324.9	5,524.4	6,040.9	≥200.0
Net Capital to total risk-based capital	153.0%	263.5%	251.2%	226.8%	≥100%
Net Capital to net assets	91.2%	86.3%	88.1%	88.9%	≥40%

SUMMARY

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital, as a group of persons, will together be entitled to exercise in general meetings voting rights attached to Shares representing approximately 51.95% of the issued share capital of our Company. Accordingly, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital will continue to be our Controlling Shareholders under the Listing Rules.

SUMMARY FINANCIAL INFORMATION

The following tables present our summary consolidated financial information as of December 31, 2014, 2015, 2016 and May 31, 2017 and for each of the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017. We have derived this summary from our consolidated financial information set forth in the Accountant's Report in Appendix I to this prospectus. You should read this summary in conjunction with our consolidated financial information included in the Accountant's Report in Appendix I to this prospectus, including the accompanying notes, and the information set forth in "Financial Information".

Summary Consolidated Statements of Comprehensive Income

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Fee and commission income	1,285,278	1,052,233	827,540	308,897	472,689
Interest income	383,556	460,615	455,226	142,093	183,871
Net changes in fair value on financial assets at fair value through profit or loss	47,981	55,527	(81,046)	(106,128)	(8,322)
Investment income	48,820	215,838	84,080	32,522	4,619
Other operating income	542	1,489	41,581	180	1,328
Total operating income	1,766,177	1,785,702	1,327,381	377,564	654,185
Total operating expenses	(575,276)	(615,225)	(388,501)	(78,284)	(213,958)
Share of profit from investments accounted for using the equity method	94,605	175,336	138,248	54,910	60,471
Operating profit before income tax	1,285,506	1,345,813	1,077,128	354,190	500,698
Income tax expense	(299,998)	(270,303)	(244,099)	(71,332)	(100,854)
Net profit attributable to shareholders of the Company	985,508	1,075,510	833,029	282,858	399,844

Summary Consolidated Statements of Financial Position

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Total current assets	3,559,362	4,224,796	2,611,733	3,635,122
Total current liabilities	1,265,863	1,835,349	912,776	1,576,975
Total non-current assets	4,075,660	3,945,956	6,036,290	6,417,113
Total non-current liabilities	972,220	337,923	1,394,123	1,990,713
Total assets	7,635,022	8,170,752	8,648,023	10,052,235
Total liabilities	2,238,083	2,173,272	2,306,899	3,567,688
Total equity	5,396,939	5,997,480	6,341,124	6,484,547

For classification of our financial instruments, see "Appendix I — Accountant's Report — Notes to the Financial Statements — 2. Principal Accounting Policies — 2.16 Financial Instruments".

SUMMARY

Summary Consolidated Statements of Cash Flow

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Net cash generated from/(used in) operating activities	935,908	978,683	(61,877)	(50,307)	105,627
Net cash (used in)/generated from investing activities	(180,609)	(594,867)	(237,760)	389,487	(15,011)
Net cash (used in)/generated from financing activities	(701,054)	(290,061)	91,983	(395,597)	(208,025)
Effect of exchange rate changes on cash and cash equivalents	23	386	443	90	(156)
Net increase/(decrease) in cash and cash equivalents	54,268	94,141	(207,211)	(56,327)	(117,565)
Cash and cash equivalents at the beginning of the year/period	333,288	387,556	481,697	481,697	274,486
Cash and cash equivalents at the end of the year/period	387,556	481,697	274,486	425,370	156,921

Key Financial Ratio

The following table sets forth the key measurements of our profitability during the Track Record Period:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
Operating margin ⁽¹⁾	72.8%	75.4%	81.1%	93.8%	76.5%
Net profit margin ⁽²⁾	55.8%	60.2%	62.8%	74.9%	61.1%
Return on equity ⁽³⁾	21.7%	18.9%	13.5%	4.8%	6.2%
Return on assets ⁽⁴⁾	13.5%	13.6%	9.9%	3.6%	4.3%

Notes:

- (1) Operating margin = Operating profit before income tax for the year or period as a percentage of total operating income for the year or period.
- (2) Net profit margin = Net profit attributable to shareholders of the Company for the year or period/total operating income for the year or period.
- (3) Return on equity = Net profit attributable to shareholders of the Company for the year or period/simple average balance of total equity as of the beginning and end of the year or period.
- (4) Return on assets = Net profit attributable to shareholders of the Company for the year or period/simple average balance of total assets as of the beginning and end of the year or period.

The decreases in our operating margin and net profit margin from the five months ended May 31, 2016 to the five months ended May 31, 2017 were primarily due to the significant increase in interest expenses and impairment losses on financial assets, and the significant decrease in negative change in net assets attributable to other beneficiaries of consolidated structured entities.

The increases in our operating margin and net profit margin from 2015 to 2016 were primarily due to the significant decrease in impairment losses on financial assets as a result of significant decrease in net charge of impairment allowance on loans to customers, which was partially offset by significant increase in our staff costs.

The increases in our operating margin and net profit margin from 2014 to 2015 were primarily due to the increase in our share of profit of Fullgoal Fund Management Co., Ltd. which was partially offset by significant increase in impairment losses on financial assets as a result of significant increase in net charge of impairment allowance on loans to customers. For a discussion of our key financial ratio, see “Financial Information — Key Financial Ratio”.

SUMMARY

The AUM of and Income from Different Types of Our Trusts

The following table sets forth the AUM of each type of our trusts as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in millions)			
Financing trusts	27,957	17,047	34,063	51,193
Investment trusts	22,530	22,628	27,909	28,884
Administrative management trusts	276,502	201,075	192,665	174,422
Total	326,989	240,750	254,637	254,499

Our total trust AUM remained relatively stable as of December 31, 2016 and May 31, 2017. Our total trust AUM increased from 2015 to 2016 primarily due to increase in AUM of our financing trusts and investment trusts as we enhanced our active management capabilities and increased the total AUM of our industrial and commercial enterprises trusts, real estate trusts, family and discretionary wealth management trusts and other investment trusts, and such increase was partially offset by the decrease in AUM of our administrative management trusts as we shifted our focus to enhancing the quality of our growth and reduced the overall size of our administrative management trusts that could only support very low trustee's remuneration rates.

Our total trust AUM decreased significantly from 2014 to 2015 primarily due to decrease in AUM of our administrative management trusts as we intended to reduce the overall size of our administrative management trusts so that more resources can be devoted to the development of active management trust business, the AUM of which increased in 2016 and the five months ended May 31, 2017, and to a lesser extent, due to decrease in AUM of our financing trusts as we reduced the overall size of our government and infrastructure trusts and industrial and commercial enterprises trusts due to slowdown of the economic growth in China and increased risks of government infrastructure projects and financings to industrial and commercial enterprises.

The following table sets forth income generated from each type of our trusts in absolute amount and as percentage of our total income from trust business during the Track Record Period:

	For the year ended December 31,						For the five months ended May 31,			
	2014		2015		2016		2016		2017	
	Income	%	Income	%	Income	%	Income	%	Income	%
	(RMB in millions, except percentages)									
Financing trusts	420	32.7	342	32.5	260	31.4	77	24.9	229	48.3
Investment trusts	187	14.5	170	16.1	195	23.6	84	27.2	94	19.9
Administrative management trusts	678	52.8	540	51.3	373	45.0	148	47.9	150	31.8
Total	1,285	100.0	1,052	100.0	828	100.0	309	100.0	473	100.0

SUMMARY

Segment Results of Operations

The following table sets forth the segment income and segment margin of each of our business segments during the Track Record Period.

	Year ended December 31,									Five months ended May 31,					
	2014			2015			2016			2016			2017		
	(RMB in million)	% of total	Segment margin (%) ⁽¹⁾	(RMB in million)	% of total	Segment margin (%) ⁽¹⁾	(RMB in million)	% of total	Segment margin (%) ⁽¹⁾	(RMB in million)	% of total	Segment margin (%) ⁽¹⁾	(RMB in million)	% of total	Segment margin (%) ⁽¹⁾
Trust business	1,323.0	71.1	81.4	1,057.9	53.9	78.8	848.0	57.9	71.2	310.1	71.7	71.4	475.2	66.6	80.4
Proprietary business	537.7	28.9	38.7	903.2	46.1	56.7	617.6	42.1	76.6	122.4	28.3	108.4	239.5	33.4	49.6
Total operating income and share of profit from investments accounted for using the equity method	1,860.7	100.0		1,961.1	100.0		1,465.6	100.0		432.5	100.0		714.7	100.0	

Note:

(1) Segment margin is calculated as segment operating profit before income tax divided by the segment income (including operating income and share of profit of investments accounted for using the equity method).

The segment margin of our trust business increased from 71.4% in the five months ended May 31, 2016 to 80.4% in the five months ended May 31, 2017 primarily due to increase in segment income from trust business (in particular, our fees and commission income) from the five months ended May 31, 2016 to the five months ended May 31, 2017, which outpaced the increase in segment operating expenses from trust business during the same period. The segment margin of our trust business decreased from 78.8% in 2015 to 71.2% in 2016 primarily because segment income from trust business (in particular, our fees and commission income) decreased from 2015 to 2016 and segment operating expenses from trust business increased during the period. The segment margin of our trust business decreased from 81.4% in 2014 to 78.8% in 2015 primarily because the decrease in segment income from trust business (in particular, our fees and commission income and interest income) from 2014 to 2015 was faster than the decrease in segment operating expenses from trust business during the period. The segment income and segment operating expenses from trust business are affected by various different factors which together caused the changes in the segment margin of our trust business. For additional information, see “Financial Information — Segment Results of Operation — Trust Business”.

The segment margin of our proprietary business decreased from 108.4% in the five months ended May 31, 2016 to 49.6% in the five months ended May 31, 2017 primarily due to the significant increase in segment operating expenses from proprietary business from the five months ended May 31, 2016 to the five months ended May 31, 2017, which outpaced the increase in segment operating income from proprietary business (in particular, net change in fair value on financial assets at FVTPL and investment income). The segment margin of our proprietary business increased from 56.7% in 2015 to 76.6% in 2016 primarily because the decrease in segment income from proprietary business (in particular, net change in fair value on financial assets at FVTPL and investment income) from 2015 to 2016 was less significant than decrease in segment operating expenses from proprietary business (in particular, impairment losses on financial assets) during the period. The segment margin of our proprietary business increased from 38.7% in 2014 to 56.7% in 2015 primarily because the increase in segment income from proprietary business (in particular, investment income and interest income) from 2014 to 2015 was faster than the increase in segment operating expenses from proprietary business (in particular, impairment losses on financial assets) during the period. The segment income and segment operating expenses from proprietary business are affected by various different factors which together caused the changes in the segment margin of our proprietary business. For additional information, see “Financial Information — Segment Results of Operation — Proprietary Business”.

SUMMARY

RECENT DEVELOPMENTS

Based on our unaudited management accounts, as of September 30, 2017, we had total current assets of RMB4,377.7 million and total current liabilities of RMB1,644.5 million. From July to September 2017, we paid cash dividends in the aggregate amount of RMB250.2 million to our shareholders. See “Financial Information — Liquidity and Capital Resources” for further details of our current assets and current liabilities.

Our Directors confirm that, after due and careful consideration and taking into account our listing expenses that would be recognized as administrative expenses in 2017, up to the date of this prospectus and except as disclosed above, there has been no material adverse change in our financial and trading position or prospects since May 31, 2017, and there is no event since May 31, 2017 which would materially affect the information shown in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$4.95 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.46 and HK\$5.43 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$2,783.8 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to us will be approximately HK\$467.8 million, after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, assuming an Offer Price of HK\$4.95 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.46 and HK\$5.43 per Offer Share). We intend to use the net proceeds from the Global Offering to strengthen our capital base to support the expansion of our business. For details of our proposed use of proceeds from the Global Offering, see “Future Plans and Use of Proceeds”.

OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$4.46	Based on an Offer Price of HK\$5.43
Market capitalization of the H Shares ⁽¹⁾	HK\$2,886 million	HK\$3,514 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$3.92	HK\$4.13

Notes:

- (1) The calculation of market capitalization is based on 647,075,000 H Shares (including 588,250,000 H Shares to be issued in the Global Offering and 58,825,000 H Shares to be converted from Domestic Shares and offered for sale in the Global Offering, which are expected to be outstanding immediately following the completion of the Global Offering).
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information”. The unaudited pro forma adjusted consolidated net tangible assets does not take into account our financial results or other transactions of the Group after May 31, 2017.

DIVIDENDS

In 2014, 2015 and 2016, we paid cash dividends of RMB701.1 million, RMB290.1 million and RMB395.6 million to our Shareholders, respectively. In April 2017, we declared cash dividends of RMB254.2 million to our Shareholders (which have been reflected in our consolidated net tangible assets as of May 31, 2017), among which RMB250.2 million was paid from July to September 2017 and the remaining RMB4.0 million remained unpaid as of the Latest Practicable Date. According to the resolution adopted by our Shareholders on May 4, 2016, our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders.

However, dividends we have paid in the past may not be indicative of our future dividend payments. We have not adopted any policy for future dividend payments. Our dividend distribution will be determined based on our results of operations, cash flows, financial position, net capital requirements, future business prospects, statutory and regulatory restrictions on the payment of dividends by us, and other factors that our Board of Directors may consider relevant. For further details, see “Financial Information — Dividend”.

SUMMARY

REGULATORY COMPLIANCE AND INSPECTIONS

We are subject to applicable regulatory requirements and guidelines issued by regulatory authorities and self-regulatory organization in the PRC, including but not limited to the CBRC and its local office and the China Trustee Association. Our Directors and our PRC legal advisers confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no administrative penalties imposed on us by any regulatory authorities in China, except as disclosed in “Business — Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”. In addition, we are subject to inspections and examinations by the CBRC, PBOC and their local offices, which may reveal certain deficiencies with respect to our business operations, risk management, internal control, financial management and corporate governance. See “Business — Legal and Regulatory Proceedings — Regulatory Inspections”.

LISTING EXPENSES

Listing expenses consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB108.6 million. Listing expenses of approximately RMB12.9 million were incurred on or before May 31, 2017, of which RMB2.2 million was charged to our consolidated statements of comprehensive income, while the remaining amount of RMB10.7 million was recorded as deferred listing expenses and will be subsequently charged to equity upon completion of the Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB95.7 million after May 31, 2017, of which RMB5.2 million will be charged to our consolidated statements of comprehensive income, and RMB90.5 million is expected to be accounted for as a deduction from equity. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2017.

RISK FACTORS

There are a number of risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks include,

- risks relating to our business and industry such as adverse changes in the Chinese economy and financial markets, significant compliance and management cost, inability to maintain or grow our trust business, decline in the volume of or income from our trust business, failure of our counterparty clients to fulfill their payment obligations, decline in the market value of our various proprietary investments due to market conditions or otherwise and decline in the business or financial performance of financial institutions in which we made equity investments;
- risks relating to the PRC such as uncertainties in the economic, political and social conditions and legal system in the PRC and fluctuations in the value of the Renminbi; and
- risks relating to the Global Offering.

A detailed discussion of all the risk factors involved are set forth in the section headed “Risk Factors” and you should read the whole section carefully before you decide to invest in the Offer Shares.

COMPETITION

We compete with trust companies in China in terms of client base, knowledge of the relevant industries, active management capability, innovation capability, reputation, creditworthiness, shareholder background and support. We also face competition from various other financial institutions. For our financing trusts, we compete with other potential financing sources, such as commercial banks and investment banks. For our investment trusts, we compete with various other financial institutions that provide assets and wealth management services, such as securities investment fund management companies, securities companies, assets management companies, private equity investment companies and private banks. For further details, see “Business — Competition”.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of the Company conditionally adopted on May 4, 2016 and amended in June 2017, which will become effective upon Listing, as amended from time to time, a summary of which is set out in Appendix V
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“Business Decision Committee”	the business decision committee of the Board
“CAGR”	compound annual growth rate
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China”, “PRC” or the “People’s Republic of China”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include, Hong Kong, Macau and Taiwan
“CIRC”	China Insurance Regulatory Commission (中國保險監督管理委員會)
“CNPC Assets Management”	CNPC Assets Management Co., Ltd. (中油資產管理有限公司), a company incorporated in China on April 29, 2000 and one of our Promoters and a substantial Shareholder, which is a wholly-owned subsidiary of CNPC Capital Company Limited, a wholly-owned subsidiary of CNPC Capital Company Limited By Shares which is an A Share listed company whose controlling shareholder is China National Petroleum Corporation (中國石油天然氣集團公司), a PRC state wholly-owned company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules, and in the context of this prospectus, refers to Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“Domestic Share(s)”	ordinary share(s) issued by our Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“GDP”	gross domestic product

DEFINITIONS

“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited designated by the Company
“Group”	our Company and the trust schemes over which it has control
“H Share(s)”	overseas listed foreign share(s) in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 64,708,000 H Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to reallocation as described in “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offering by the Company of initially 64,708,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering”) for cash at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters”

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 27, 2017 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) as further described in “Underwriting — Underwriting Arrangements and Expenses”
“Human Resources and Nomination Committee”	the human resources and nomination committee of the Board
“IFRS”	International Financial Reporting Standards
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not a connected person of our Company within the meaning of the Listing Rules
“International Offer Shares”	the 582,367,000 H Shares initially offered by our Company and sold by the Selling Shareholders pursuant to the International Offering together with, where relevant, any additional H Shares which may be issued by our Company and sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option (subject to adjustments as described in “Structure of the Global Offering”)
“International Offering”	the offer of the International Offer Shares by the International Underwriters at the Offer Price, outside the United States in offshore transactions in accordance with Regulation S, as further described in “Structure of the Global Offering”
“International Underwriters”	the group of international underwriters, led by the Joint Representatives, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into on or around December 1, 2017, by, among others, our Company, the Selling Shareholders, the Joint Representatives, the Joint Bookrunners, and the International Underwriters in respect of the International Offering, as further described in “Underwriting — International Offering”
“Jinan Energy Investment”	Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司), a PRC state wholly-owned company incorporated on April 20, 1998 under the laws of the PRC and one of our Promoters, whose sole shareholder is Jinan Industry Development Investment Group Co., Ltd. (濟南產業發展投資集團有限公司), which is wholly owned by the State-owned Assets Supervision and Administration Commission of Jinan Municipal People’s Government (濟南市人民政府國有資產監督管理委員會)
“Joint Bookrunners”	CCB International Capital Limited, Haitong International Securities Company Limited, BOCOM International Securities Limited, CMB International Capital Limited, ICBC International Capital Limited and ABCI Capital Limited
“Joint Global Coordinators”	CCB International Capital Limited, Haitong International Securities Company Limited, BOCOM International Securities Limited and CMB International Capital Limited
“Joint Lead Managers”	CCB International Capital Limited, Haitong International Securities Company Limited, BOCOM International Securities Limited, CMB International Capital Limited, ICBC International Securities Limited and ABCI Securities Company Limited
“Joint Representatives”	CCB International Capital Limited, BOCOM International Securities Limited and Haitong International Securities Company Limited
“Joint Sponsors”	CCB International Capital Limited, BOCOM International (Asia) Limited and Haitong International Capital Limited

DEFINITIONS

“JPY”	Japanese Yen, the lawful currency of Japan
“Latest Practicable Date”	November 20, 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our H Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or around December 8, 2017, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lucion Group”	Shandong Luxin Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司), formerly known as Shandong Luxin Investment Holdings Co., Ltd. (山東省魯信投資控股有限公司) a company incorporated on January 31, 2002 under the laws of the PRC and our Controlling Shareholder, which is owned as to 70% by Shandong SASAC and as to 30% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會)
“Luxin Culture Venture Capital”	Shandong Luxin Culture Industrial Venture Capital Co., Ltd. (山東魯信文化產業創業投資有限公司), a company incorporated on March 23, 2012 under the laws of the PRC, a non-wholly owned subsidiary of Lucion Group
“Luxin Venture Capital”	Luxin Venture Capital Group Co., Ltd. (魯信創業投資集團股份有限公司), a company incorporated on November 20, 1993 under the laws of the PRC, which is listed on the Shanghai Stock Exchange (stock code: 600783) and a non-wholly owned subsidiary of Lucion Group
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mandatory Provisions”	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), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NSSF”	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$5.43 and expected to be not less than HK\$4.46, at which Hong Kong Offer Shares are to be subscribed for, and to be determined in the manner further described in “Structure of the Global Offering — Pricing of the Global Offering”
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Over-allotment Option”	the option expect to be granted by our Company and the Selling Shareholders to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company and the Selling Shareholders may be required to allot and issue or sell up to an aggregate of 97,042,000 additional H Shares for which our Company may be required to allot and issue up to an aggregate of 88,220,000 additional H Shares and the Selling Shareholders may be required to sell up to 8,822,000 additional H Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in “Structure of the Global Offering”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them
“PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), which was promulgated by the Standing Committee of the National People’s Congress on December 29, 1993, came into effect on July 1, 1994 and revised as of December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively and the latest revision of which was implemented on March 1, 2014, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	generally accepted accounting practices in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them

DEFINITIONS

“PRC Trust Law”	Trust Law of the People’s Republic of China (中華人民共和國信託法), which was promulgated by the Standing Committee of the Ninth National People’s Congress on April 28, 2001, and came into effect on October 1, 2001
“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about December 1, 2017 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Representatives (for themselves and on behalf of the Underwriters) and we (for ourselves and on behalf of the Selling Shareholders) may agree, but in any event no later than December 6, 2017
“Promoters”	the promoters of our Company, namely Lucion Group, CNPC Assets Management, Shandong High-Tech Venture Capital, Shandong Gold Group, Jinan Energy Investment, and Weifang Investment
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

DEFINITIONS

“Sale Shares”	the 58,825,000 H Shares to be converted from an equal number of Domestic Shares held by the Selling Shareholders to be offered for sale by the Selling Shareholders as part of the Global Offering at the Offer Price and any additional H Shares which may be offered for sale by the Selling Shareholders pursuant to the exercise of the Over-allotment Option, and references to “Sale Shares” shall include, where the context requires, the Domestic Shares from which the Sale Shares are converted
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Selling Shareholders”	Lucion Group, CNPC Assets Management, Shandong Gold Group, Jinan Energy Investment and Weifang Investment
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Gold Group”	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a company incorporated on July 16, 1996 under the laws of the PRC and one of our Promoters which is owned as to 70% by Shandong SASAC and as to 30% by Shandong Provincial Council for Social Security Fund
“Shandong High-Tech Venture Capital”	Shandong High-Tech Venture Capital Co., Ltd. (山東省高新技術創業投資有限公司), a company incorporated on June 16, 2000 under the laws of the PRC and our Controlling Shareholder, which is wholly owned by Luxin Venture Capital
“Shandong Office of CBRC”	the Shandong Office of CBRC (中國銀監會山東監管局)
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會)

DEFINITIONS

“Shandong Trust”, “Company”, “our Company”, “we” or “us”	Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), established in the PRC on March 10, 1987 and converted into a joint stock company with limited liability under the PRC Company Law on July 30, 2015 and, except where the context otherwise requires, the trust schemes over which it has control
“Share(s)”	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, comprising our Domestic Shares and our H Shares
“Shareholder(s)”	holder(s) of our Shares
“Special Regulations”	“Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited 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), promulgated by the State Council on August 4, 1994
“Stabilizing Manager”	CCB International Capital Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange” or the “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategies and Risk Management Committee”	the strategies and risk management committee of the Board
“Supervisor(s)”	one (or all) of our supervisors
“Track Record Period”	years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017
“Trust Committee”	the trust committee of the Board
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

DEFINITIONS

“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“Weifang Investment”	Weifang Investment Group Co., Ltd. (濰坊市投資集團有限公司) (formerly named Weifang Investment Company (濰坊市投資公司)), a PRC state wholly-owned company with limited liability incorporated on August 18, 1992 under the laws of the PRC and one of our Promoters, whose sole shareholder is the State-owned Assets Supervision and Administration Commission of Weifang City (濰坊市國有資產監督管理委員會)
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wind Info”	Wind Information Co., Ltd. (萬得信息技術股份有限公司), a joint stock limited company incorporated on April 4, 2005 under the laws of the PRC and a service provider of financial data, information and software, being an independent third party of the Company

Unless the context otherwise requires, the terms including “associate(s)”, “close associate(s)”, “connected person(s)”, “core connected person(s)”, “subsidiary(ies)”, and “substantial shareholder(s)” shall have the meanings ascribed to them under the Listing Rules.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this prospectus in connection with our Company and our business. Some of these may not correspond to standard industry definitions or usage of these terms.

“asset management scheme”	an asset management contract entered into with its client(s) by a securities firm or subsidiary of securities investment fund management company in China, pursuant to which the client(s)’ assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC and the securities firm provides asset management services to the client(s) through designated accounts
“AUM”	assets under management, which refers to the amount of the entrusted assets of our trust schemes
“benchmark interest rate”	the benchmark interest rate set by the PBOC on financial institutions’ Renminbi deposits and loans
“CAGR”	compound annual growth rate
“commercial bank(s)”	include large commercial banks, joint-stock commercial banks, city commercial bank, rural commercial banks and foreign banks
“CRM”	customer relationship management
“financial assets at FVTPL”	financial assets at fair value through profit or loss, which is a category of financial assets under IFRS
“fixed-income product”	financial product under which the borrower or issuer is obliged to make payments of a fixed amount on a fixed schedule
“gross amount”	gross amount of a financial asset is the amount before deduction of any provision for impairment losses
“high-yield bond”	a bond that is rated below investment grade and has a higher risk of default or other adverse credit events, but typically pays higher yields than bonds with higher rating
“HNWI”	high-net-worth individual

GLOSSARY OF TECHNICAL TERMS

“inter-bank market”	a market in which financial institutions provide financings to one another
“IT”	information technology
“NAV”	net assets value, which means the value of an entity or trust scheme’s assets minus the value of its liabilities
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統), also known as “new third board,” an over-the-counter, national stock market in China
“Net Capital”	a measure provided by the Net Capital Measures, being our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by the CBRC while the risk deductions are determined by the CBRC
“Net Capital Measures”	the Administrative Measures on Net Capital of Trust Companies (信託公司淨資本管理辦法) promulgated by the CBRC in August 2010
“OTC”	over-the-counter
“QDIE”	qualified domestic investment enterprise
“QDII”	qualified domestic institutional investor
“R&D”	research and development
“risk-based capital”	a financial measure provided by the Net Capital Measures which is calculated by applying a risk factor to our proprietary assets or trust assets used in the relevant business
“SSE Index”	Shanghai Stock Exchange Composite Index, a capitalization-weighted stock market index of all stocks that are traded at the Shanghai Stock Exchange
“Trust Industry Protection Fund”	Trust Industry Protection Fund (信託業保障基金), a market-oriented risk mitigation system which was established to protect the legitimate interests of the trustees, effectively prevent the risk of the trust industry and facilitate the sound development of the trust industry

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under “Risk Factors” and the following:

- our business prospects;
- future developments, trends and conditions in the trust industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the trust industry and markets in which we operate;
- the effects of adverse changes in the Chinese economy and financial markets;
- our dividend payments;
- the potential for future development of our business;
- capital market developments;

FORWARD-LOOKING STATEMENTS

- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. We caution you not to place undue reliance on any forward-looking statements or information.

In this prospectus, statements of or references to the intentions of us or any of our Directors are made as of the date of this prospectus. Any such intentions may potentially change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

An investment in our H Shares involves a high degree of risk. You should carefully consider the following information about risks, together with the other information contained in this prospectus, including our consolidated financial statements and related notes, before you decide to buy our H Shares. If any of the circumstances or events described below actually arises or occurs, our business, results of operation, financial condition and prospects would likely suffer. In any such case, the market price of our H Shares could decline and you may lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of many factors, including the risks described below.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized as (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We may not be able to maintain the scale of our trust business at any historical level and our historical financial results are not necessarily indicative of our future performance.

While we experienced rapid growth in our trust business since 2011, our trust AUM decreased significantly from RMB326,989 million as of December 31, 2014 to RMB240,750 million as of December 31, 2015. While we increased our trust AUM to RMB254,499 million as of May 31, 2017, we cannot assure you that we will be able to continue the growth or maintain the scale of our trust business. We also experienced decrease in fee and commission income from trust business since 2015. Our fee and commission income decreased from RMB1,285.3 million in 2014 to RMB1,052.2 million in 2015 and to RMB827.5 million in 2016 mainly due to slowdown of the economic growth in China and the resulting decline in stock markets and general financing costs and increased competition among different financing sources that drove down our average actual trustee's remuneration rate (annualized) from 0.41% in 2014, to 0.37% in 2015 and 0.33% in 2016. Although our fee and commission income increased from RMB308.9 million for the five months ended May 31, 2016 to RMB472.7 million for the five months ended May 31, 2017 and our average actual trustee's remuneration rate (annualized) increased from 0.30% in the five months ended May 31, 2016 to 0.45% in the same period of 2017, this may not be indicative of our future performance. As many of the factors affecting our financial performance are beyond our control, we cannot assure you that we will be able to grow or maintain our income from trust business at any historical level. In addition, since we maintain different remuneration rates for different types of trusts, if we fail to grow the proportion of the trust products with a higher remuneration rates among all of our trusts, our revenue-generating ability and profitability may be materially and adversely affected.

RISK FACTORS

We intend to continuously adjust the attention and resources we apply to different types of our trusts in order to capture valuable market opportunities emerging at different times. As China's overall economic environment, the condition and prospects of different industries and sectors, and Chinese government's regulations and policies continue to change from time to time, our trusts that were popular and profitable in the past may cease to be so in the future while our other trusts may become, or we may design new trusts that are, popular and profitable. Our future financial performance will depend upon the success of our different trusts, and as we continue our transformation, and as we spend more efforts on innovation and creation of new trusts, the composition of our trusts in the future may differ significantly from our existing trusts, and their contribution to our revenue and profitability may also differ significantly. As such, our historical financial results may not be indicative of our future performance.

Adverse changes in the Chinese economy and financial markets could materially and adversely affect our business, financial condition and results of operation.

Our business is materially affected by conditions in the Chinese economy and financial markets which are outside our control, including volatility of interest rates, inflation, upward and downward trends in the industrial and financial sectors, monetary and fiscal policies, foreign exchange policies and currency fluctuations, taxation policies and other macroeconomic policies, as well as laws and regulations affecting the financial industries. Our business cycle highly correlates to fluctuations in China's financial markets and economic conditions.

According to preliminary data from the National Bureau of Statistics, China's GDP increased by 6.7% from 2015 to 2016, which was a record low for the past 25 years. While Chinese economy has experienced rapid growth over the past 30 years, it has gradually entered a "new normal" stage characterized by deceleration in growth rate, economic structure optimization and upgrading, and economic growth driven more by improvement in services and innovation. Given overcapacity in the steel, cement and other manufacturing industries, the high debt ratios of local governments, and overreliance of the entire economy upon the real estate sector, the PRC government is taking measures to encourage reduction in the production capacity of the manufacturing sector, deleverage the financial industry, and control the growth of the real estate sector. Although the structural transformation and development of the Chinese economy provides opportunities for our businesses, adverse financial or economic conditions could adversely affect our businesses, in particular:

- Any decline in the business of real estate and infrastructure sectors may affect their profit margins and ability to bear financing costs, and therefore negatively affect the popularity and investment return of our trusts that focus on providing financings to companies in these sectors.

RISK FACTORS

- The PRC government has adopted, and may adopt in the future, various measures to address slowdown or downturn in the Chinese economy, including the launch of alternative financing channels and the expansion of banking business, which has increased competition for our traditional financing trust business and driven down overall financing costs in China.
- Our target clients may reduce their investment activities and financing needs in an economic slowdown or downturn in China, which may reduce the demand for financing through our trusts.
- Financial risks of individual cases may break out more often during times of economic slowdown or downturn, which may increase the default risks of our counterparties and cause more of our trusts become subject to increase impairment risk.
- The trust assets of many of our investment trusts and a significant portion of our proprietary assets are held in the form of, or secured by, standardized financial products, such as stocks, bonds and fund units, and their value is materially affected by overall performance of the capital markets, macroeconomic conditions and general investor sentiment. Adverse economic and market conditions could negatively affect the value and returns on these financial assets which could reduce the NAV of these trusts and the value of our proprietary investments.

All of the above have had and may continue to have a material adverse effect on our business, financial condition and results of operation. In particular, the volume of our trust business may decline and our income from trust business may decrease. We will face the challenge of continuing to offer reasonable investment returns to our trustor clients while effectively controlling risks of our trusts at the same time. We may also incur substantial loss on our proprietary investments. While we are making our efforts, we cannot assure you that we will be successful.

We are subject to extensive and evolving regulatory requirements and the compliance and management cost may be material.

We are subject to extensive laws and policy and regulatory requirements issued by the relevant governmental authorities in the PRC, which are subject to updates and changes from time to time.

As a trust company in the PRC, we are subject to supervision of various government authorities, and most importantly, the CBRC and its local office. These regulatory authorities promulgate requirements governing our business in various aspects, such as net capital, anti-money laundering, access to certain markets, and pre-filing of trusts, among others. China Trustee Association also issues guidelines in relation to our business operations from time to time, which have similar effect to regulations promulgated by

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governmental authorities. Compliance with applicable laws, rules and regulations to a certain extent, may restrict our business activities and require us to incur increased expenses, restate or write down the value of our assets or liabilities, and devote considerable time and resources to such compliance. In addition, relevant government authorities may adopt new laws and regulations, or amend the interpretation or enforcement of existing laws and regulations, or promulgate stricter laws and regulations, all of which may materially and adversely affect our financial condition and results of operations. For example, a senior official of the CBRC made a speech during the 2016 China Trust Industry Annual Conference in December 2016 in which he discussed about classification of trust business into different categories so as to enable regulators to study what are the major risks of different categories of trust business, what measures should be adopted to control different risks of different categories and how to implement such measures and the CBRC was reported to have started a trial program to test such classification system among certain trust companies and local offices of the CBRC. While no new regulation has been adopted by the CBRC or any other government authority regarding such classification of trust business, we cannot assure you that such regulation will not be adopted in the future nor that regulators will not impose additional or more stringent measures to control or restrict certain categories of trust business, which may materially and adversely affect some or all of our trust business.

In addition to laws, rules and regulations, the regulatory authorities may also issue various policies and guidance from time to time. For example, the CBRC promulgated the Opinions on Further Strengthening the Risk Supervision of Trust Companies (關於進一步加強信託公司風險監管工作的意見) in 2016 and expressed again on different occasions their determination to strengthen risk supervision of the trust industry in 2017. PBOC, CBRC, CSRC, CIRC and SAFE also published draft Guiding Opinions to Standardize Assets Management Business of Financial Institutions for public comments in November 2017, intending to provide a uniform set of standards for regulating similar assets management products of different types of financial institutions, effectively control financial risks and better serve the real economy. The regulatory authorities encourage trust companies to actively reduce their trust business that serves merely as channels, shorten the links between fund suppliers and users, and deleverage their business so as to ensure that the comprehensive risk of the trust industry is under control. The regulatory authorities also encourage trust companies to maintain their fundamental role as a provider of trustee services, enhance their research and innovation efforts with respect to their actively managed trust business, and provide more targeted and high value added financial services to the real economy. While these policies and guidance may not have the force of law, we expect to continue to follow them in our business operation and therefore our business, financial condition and results of operations may be significantly affected by such policies and guidance.

Furthermore, pursuant to applicable laws and regulations in the PRC, we are required to obtain or renew approvals, permits and licenses with respect to our relevant operations. However, if regulatory policies regarding operating licenses are amended in the future, or the permitted business scope of financial institution is amended, we might incur more

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expenses or use additional efforts in order to comply with the newly amended requirements in order to obtain or renew all necessary approvals, permits and licenses.

We are also subject to regular and *ad hoc* inspections and examinations by the CBRC and its local office, and other PRC governmental authorities, including PBOC, SASAC, tax authority, industry and commerce administration, audit and social security authorities in respect of our compliance with PRC laws and regulations. We had been subject to inspection initiated by Shandong Office of CBRC in May and June 2016 and received a fine of RMB200,000 on us as the administrative penalty in December 2016 in connection with our failure to fulfill certain disclosure obligations under the contract of a securities investment trust. In addition, we had been subject to inspections initiated by Shandong Office of CBRC from October 2016 to April 2017 and received a notice of administrative penalties of RMB400,000 in September 2017 in connection with (i) our failure to conduct sufficient due diligence and implement risk management measures in the establishment of certain real estate trusts and (ii) certain of our trusts that were guaranteed by entities backed up by local government authorities were not in strict compliance with relevant regulatory requirements. For more details, please refer to “Business — Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to other penalties or sanctions imposed by the CBRC or other regulatory authorities due to our non-compliance with applicable laws and regulations. However, we cannot assure you that we will not be subject to penalties or sanctions due to any non-compliances that may be identified by relevant government authorities during their past or future inspections on us. Any penalties or sanctions on us as a result of such non-compliances may adversely affect our business, financial condition, results of operation and reputation.

We may not be able to meet all the applicable regulatory requirements, or comply with all the applicable regulations or guidelines at all times. Non-compliance with relevant laws and regulations or failure to obtain the relevant approvals could subject our Company to sanctions, fines, penalties, revocation of license or other punitive actions, including suspension of our business operations or restriction or prohibition on certain business activities, all of which may materially and adversely affect our results of operations and financial condition.

The volume of, and income from, our financing trust business may continue to decline, which may have a material adverse effect on our results of operation.

Our financing trusts had been an important component of our trust business during the Track Record Period. However, both the volume of, and income from, our financing trust business fluctuated during the Track Record Period. As of December 31, 2014, 2015, 2016 and May 31, 2017, AUM of our financing trusts was RMB27,957 million, RMB17,047 million, RMB34,063 million and RMB51,193 million, respectively, comprising 8.6%, 7.1%, 13.4% and 20.1% of our total trust AUM as of the same date. Our fee and commission income generated from financing trusts decreased from RMB420 million in 2014 to RMB342 million in 2015 and to RMB260 million in 2016 and increased from RMB77 million for the five

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months ended May 31, 2016 to RMB229 million for the five months ended May 31, 2017, comprised 32.7%, 32.5%, 31.4%, 24.9% and 48.3% of our total fee and commission income from trust business in 2014 and 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Through our financing trusts, we essentially provide private placement investment banking services to corporations and institutions in various industries, such as real estate developers, infrastructure projects undertaken by local government, and other enterprises that traditionally cannot satisfy their financing needs through other channels. In recent years, however, more and more financing channels have become available to these borrowers. For examples, most of the top real estate companies have been able to obtain cheaper financing through the issuance of bonds in overseas markets. Many securities companies and fund management companies in China have also been recently permitted to arrange financing for these borrowers through their asset management or fund schemes. Even commercial banks in China have joined in the competition for top players and high-quality assets in these sectors. Commercial banks are also actively expanding their loans to SMEs while many small loan companies and Internet financing platforms have been established in recent years to target the financing needs of SMEs. As such, competition for the financing needs of our target clients increased significantly, which drove down their financing costs and our fee and commission income from such business. In addition, some of these alternative financing sources, such as securities companies, small loan companies and Internet financing platforms do not have similar capital requirements as what we are subject to as a trust company, and therefore they enjoy certain competitive advantage over us. Commercial banks, while subject to stricter capital requirements, can offer lower interest rates to these borrowers, and therefore also enjoy certain competitive advantage over us. As such, we may lose many of our financing trust business to these alternative financing sources. All of the above contributed to the decrease in the volume of, and income from, our financing trusts during the Track Record Period.

While we are taking active measures to maintain and grow our financing trust business and the trust AUM of our financing trusts increased from RMB17,047 million as of December 31, 2015 to RMB34,063 million as of December 31, 2016 and to RMB51,193 million as of May 31, 2017, our fee and commission income from financing trusts decreased during the same period primarily due to the above mentioned factors. We cannot assure you that the measures taken by us will be effective nor that we will be able to maintain or grow the volume of, or our income from, such business. If we fail in these endeavors, given the historical importance of financing trust business, our results of operation may be materially and adversely affected.

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Our financing trusts have significant exposure in industries which could be adversely affected by downturns in the Chinese economy and any failure of our counterparty clients to fulfill their payment obligations to such trusts may materially and adversely affect our business and reputation.

Our financing trusts have focused on the real estate industry, government infrastructure projects and industrial and commercial enterprises during the Track Record Period. As of December 31, 2014, 2015, 2016 and May 31, 2017, our real estate trusts had trust AUM of RMB9,751 million, RMB10,044 million, RMB13,569 million and RMB27,949 million, respectively, representing 19.3%, 25.3%, 21.9% and 34.9% of the total trust AUM of our actively managed trusts as of the same date, and our governmental platform and infrastructure trusts had trust AUM of RMB7,785 million, RMB1,220 million, RMB3,756 million and RMB3,676 million, respectively, representing 15.4%, 3.1%, 6.06% and 4.6% of the total trust AUM of our actively managed trusts as of the same date. As of December 31, 2014, 2015, 2016 and May 31, 2017, our industrial and commercial enterprises trusts had trust AUM of RMB10,421 million, RMB5,783 million, RMB16,738 million and RMB19,568 million, respectively, representing 20.6%, 14.6%, 27.0% and 24.4% of the total trust AUM of our actively managed trusts as of the same date.

The PRC real estate market is affected by many factors, including but not limited to, general economic conditions, interest rates, inflation rate, urbanization rate, household disposable income levels and supply and demand dynamics, many of which are beyond our control. In the past few years, the PRC central and local governments had implemented stringent policies to control the real estate market. Such policies include controlling the land, taxes, real estate development, mortgage and other credit facilities for real estate transaction and development, increasing down payment ratio requirements for property purchases and interest rate level, and limiting investment in and sales of assets in the real estate market. The PRC government has eased certain restrictive measures starting in the third quarter of 2014 to foster the growth of the residential real estate market in China. Since 2016, however, central and local governments again imposes restrictive policies to control the overheated residential real estate market, and there is no assurance that the PRC government will continue to further impose other restrictive policies, regulations or measures in the future. Any further stringent regulatory policies in China or extended implementation of the relevant policies could lead to deterioration in the liquidity of the real estate market in China, which may in turn cause the decline in sales volume and prices of properties our trusts invest in, adversely affecting the real estate developers' or project companies' ability to repay financings from our trusts.

Our governmental platform and infrastructure trusts provide debt financing to local governments' financing platforms through fixed-term loans to them, as well as through purchase of the financing platforms' accounts receivables from local governments. Since 2010, the State Council, CBRC and PBOC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that guide PRC banks and other financial institutions to strengthen their risk management measures regarding loans to local governments' financing platforms. In

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addition, recent media publications have continued to express concerns about the level of debts of local governmental financing platforms. We cannot assure you that any measures taken by us are or will be effective or sufficient to protect us from any default by local governments or their financing platforms. Any unfavorable economic developments, changes in government policies, deterioration of the financial condition of local governments, significant decline of property prices or other factors may undermine the ability of local governments or their financing platforms to repay their debts to our trusts.

Downward pressure on Chinese economy and overcapacity in certain industrial sectors may have an adverse effect on our industrial and commercial enterprises trusts. Enterprises operating in these sectors may experience decreasing demand for their products, thus reducing their financing needs. Also, the economy downturn may cause the deterioration of the financial conditions of these enterprises, and thereby weaken their ability to obtain financing. In addition, deterioration in the financial conditions of our existing counterparty clients may cause them to default in the repayment of the financings we provided. Any of the above may have a material adverse effect on our industrial and commercial enterprises trust business.

In the event of a downturn or slowdown in any of the industries in which our trusts focus on, these trusts may not be able to collect the principal and/or expected investment returns from the counterparties. If our trusts fail to pay the principal and expected investment returns to our trustor clients, our business and reputation may be materially and adversely affected.

The volume of, and revenue from, our administrative management trusts may continue to decline, which will have an adverse effect on our business, financial condition and results of operation.

We establish and manage administrative management trusts pursuant to the instructions of trustor clients, most of which are corporate and institutional investors, and in particular, financial institutions. Administrative management trusts had comprised a significant portion of our trust business during the Track Record Period. As of December 31, 2014, 2015, 2016 and May 31, 2017, AUM of our administrative management trusts comprised 84.6%, 83.5%, 75.7% and 68.5% of our total trust AUM, respectively, and income generated from administrative management trusts comprised 52.8%, 51.3%, 45.0%, 47.9% and 31.8% of our total revenue from trust business in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

We have experienced decrease in the volume of, and income from, such business in response to increased competition, increased costs and government concerns over trust companies' over-reliance on administrative management trust business. The Chinese government has concerns over trust companies' over-reliance on administrative management trusts because trust companies' role and responsibilities in such trusts are very limited and they cannot help trust companies to develop their active management capabilities or realize the core value of trust arrangements. If trust companies continue to

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concentrate their businesses on administrative management trusts, they will not be able to maintain a healthy growth or withstand competition from other financial institutions, and may frustrate the government's purpose in promoting the trust industry in China. In addition, the CSRC has allowed securities companies (through their asset management departments) and securities investment fund management companies (through dedicated subsidiaries) to expand their asset management business and invest into more diverse asset classes, which lead to direct competition between our trust schemes and the asset management schemes of securities companies and subsidiaries of securities investment fund management companies. Due to their historically lower capital requirements, securities companies and securities investment fund management companies may enjoy pricing advantage over us. Starting from December 2014, we or our counterparty clients are required to make contribution to Trust Industry Protection Fund based on the AUM of our fund trusts, which resulted in higher costs for our administrative management trusts. In addition, as our involvement is limited in administrative management trusts and given the increased competition, our remuneration as the trustee from such business is significantly lower than that of our other businesses. As a result of the above, the total trust AUM of our administrative management trusts decreased from RMB276,502 million as of December 31, 2014 to RMB201,075 million as of December 31, 2015, then to RMB192,665 million as of December 31, 2016 and decreased to RMB174,422 million for the five months ended May 31, 2017. Our fee and commission income from administrative management trusts decreased from RMB678 million in 2014 to RMB540 million in 2015, then decreased to RMB373 million in 2016 and slightly increased from RMB148 million for the five months ended May 31, 2016 to RMB150 million for the five months ended May 31, 2017.

While we are actively exploring new types of administrative management trusts whereby our trustor clients mainly rely on our creditworthiness and the quality of our trustee services, we cannot assure you that our endeavors on this front will be successful nor that they will be able to contribute to the increase in our income as we expect. In particular, we cannot assure you that we will be able to continue to retain or attract corporate and institutional investors including financial institutions that have been the largest trustor client base of our administrative trust business. Such clients may cease some or all of their businesses with us for various reasons such as changes in regulatory environment, the expansion of their business scope and activities, or increased competition from other financial institutions that can offer similar services. As a result, our administrative management trusts may continue to decline in the future, either in terms of volume or in terms of income generated, which may significantly reduce the total volume of our trust business and adversely affect our revenue from the trust business.

We may not be able to successfully expand our investment trust businesses that focus on asset management and wealth management.

We are actively expanding our investment trust businesses that focus on asset management and wealth management to institutional investors and HNWIs, and our ability to increase or maintain the volume, revenue and profitability of our trust business partially depends our future performance in these businesses. However, we have less experience

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and knowledge in these businesses than our traditional financing trust businesses. For example, we established our first structured securities investment trust scheme in 2003, first management securities investment trust in 2006, first family trust in 2014, and first private wealth management trust in 2015. As such, we may not be able to make appropriate arrangements and judgments in operating such businesses due to our limited experience. These businesses also require different capabilities from our traditional financing trust businesses. For example, while our strong deal origination and risk management capabilities are key to the success of our traditional financing trust business, our asset management and wealth management businesses will require us to have strong product selection, portfolio management and investment advisory capabilities. While we are actively building up such capabilities, we cannot assure you that we will be able to grow such capabilities fast enough to succeed in the rapid expansion of these businesses. In addition, the performance of our asset management and wealth management business is significantly affected by performance of the securities markets in China and any downturn in the securities markets may have a material adverse effect on such business. Furthermore, the laws, rules and policies related to these businesses may change from time to time, subject to the macroeconomic policies of the PRC government and the development of the asset management and private wealth management industry. As all of these factors are beyond our control, we may not be able to capture the growth opportunity for our investment trust businesses, which may have a material adverse effect on our future business, financial condition and results of operations.

We may be subject to new risks and challenges in connection with continuous innovation and expansion of our trust business.

We believe continuous innovation is a key to the success of trust companies in China, including us. Utilizing the flexibility of the trust scheme and the expanded business scope under our trust license, we have been continuously developing new trusts to capture optimal market opportunities and satisfy unmet demands of different participants in China's financial markets. These new trusts and related businesses may have different operational parameters and risk profiles as compared to our more established trusts and may expose us to various challenges and risks, including but not limited to:

- insufficient experience, expertise and skills in offering, promoting, establishing, administering and managing these new trusts and dealing with new counterparties and trustor clients;
- stricter regulatory scrutiny and increased credit risks, market risks and operational risks;
- failure to achieve investment returns from the new trusts;
- reputational concerns arising from dealing with new counterparties and trustor clients who are less familiar to us and may be less sophisticated;

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- failure to train or recruit sufficient qualified personnel to support the offering of new trusts, or failure to integrate existing staff into new lines of business;
- lack of market and customer acceptance of our new trusts;
- failure to develop new distribution and cooperation channels for our new trusts;
- failure to make accurate analysis or judgment on market conditions of our new trusts; and
- failure to enhance our risk management capabilities and IT systems in a timely manner to support new businesses and a broader range of trusts.

If we are unable to achieve the expected results with respect to our innovation efforts, our business, financial condition, results of operations and prospects could be materially and adversely affected.

The limitations of our due diligence procedures and analytical approaches as well as other factors beyond our control may affect our judgments and valuation of potential projects.

For our actively managed trusts and our proprietary business, before we make any investment decision as the trustee or investor and initiate a project, we conduct due diligence that we consider reasonable and appropriate based on the facts applicable to each project. The due diligence that we have conducted or will conduct with respect to any project may not reveal all relevant facts that are necessary or useful in evaluating such projects, which could cause us to make erroneous judgment about the risks of such projects. In particular, when we accept collateral, pledges or guarantees securing financings provided by our trusts or our proprietary assets, we may be unable to fully identify defects in the title of the collateral, which could materially and adversely affect our ability to enforce our rights and realize the value of collateral.

Also, there are no readily ascertainable market prices for most of the collateral that we accept to secure our loans. The valuation methods adopted by us or independent valuers engaged by us may involve subjective judgments, assumptions and opinions, which may not be accurate or correct. Given the complexity of some investment strategies, we may utilize analytical approaches with reference to the information and data provided by our counterparties in pricing the relevant trusts. In the event that these analytical approaches, data and information prove to be incorrect, inaccurate, misleading or incomplete, any decisions made in reliance thereon may expose us to potential risks. We may make unsound investment decisions, which may in turn negatively affect the investment return for such trusts or our proprietary assets.

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The collateral, pledges or guarantees securing financings from our trusts or our proprietary assets may not be sufficient and we may be unable to realize the value of the collateral and pledged assets in a timely manner, or at all.

Many financings provided by our trusts or us with our proprietary assets are secured by collateral, pledge or guarantees. The value of such collateral and pledges may significantly fluctuate and decline due to various factors beyond our control, including damage, devaluation, loss, reduced market demand, or factors affecting the macro-economy of China. In addition, deterioration of the guarantors' financial conditions may decrease the amounts we may recover under such guarantees. In the event of any material default on payment terms, we may need to seek enforcement of our security interest through court proceedings which may be protracted, and we cannot assure you that it will be successfully enforced in the end. We are subject to the risks arising from the courts or other judicial or government authorities declaring certain guarantees invalid or refusing or failing to enforce for other reasons. In addition, if our rights to the collateral and pledged assets become subordinated to other creditors, our security interest may not be enforced until all senior creditors are fully repaid. As a result, our trusts or proprietary assets may face the risk of losing all or part of the outstanding amount of such financings, which may in turn materially and adversely affect our business, results of operations and financial condition.

Any failure to effectively monitor, mitigate, resolve and dispose of risks relating to investments made by our trusts may result in counterparty defaults and loss to beneficiaries of our trusts and thereby damage our reputation and materially and adversely affect our trust business.

While we have adopted a variety of measures for monitoring risks relating to investments made by our trusts, these measures may not always be effective and many of the risks are beyond our control. As a result, risks of loss to our trust assets may materialize from time to time. For example, a counterparty of our trust may experience significant deterioration in its financial conditions, encounter liquidity issues or become subject to material litigation or other legal proceeding, any of which may prevent it from fulfilling its payment obligations to the trust. When we identify such materialized risks, we will take various actions to mitigate or resolve them. For example, for our actively managed trusts, we may require the counterparty to provide additional guarantee or collaterals, accelerate due date of the loan and demand immediate repayment, or take legal actions to enforce on the guarantee or collateral as necessary. However, these risk mitigation measures may not always be available or effective. As a result, notwithstanding the risk mitigation and resolution measures we take, it may become substantially likely that we will not be able to collect all payments from the counterparty according to its contract with us before the expected dates of distribution and/or the trust expiration date and therefore such distribution to beneficiaries of the trust is unlikely to be made as planned. Such trust will become a "troubled trust" and we will need to work with the counterparty, guarantors, beneficiaries of the trust and other relevant parties to formulate a risk disposal plan. See "Risk Management — Risk Management in Our Trust Business — Ex-post Risk

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Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management”. We cannot assure you, however, that we will always be able to find a risk disposition plan that is satisfactory to all parties or will not subject beneficiaries of our trusts to certain losses. While we intend to continue to improve and enhance our risk monitoring, mitigation, resolution and disposition efforts, it is likely that we will continue to face troubled trusts in the future due to the inherent nature of financing and investment businesses, and we cannot assure you that the number of troubled trusts will not increase or we will always be able to dispose of the risks relating to such trusts to the satisfaction of all relevant parties, in particular, the beneficiaries of such trusts. As a result, beneficiaries of such troubled trusts may suffer losses on their investments. For example, our liquidity support may not be effective and we may not always be able to successfully find the interested parties and sell the assets of a troubled trust to such third parties, including but not limited to Shandong Provincial Financial Asset Management Co., Ltd, a subsidiary of Lucion Group. While under PRC laws and regulations we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee, our reputation may be damaged if beneficiaries of our trusts suffer losses and our trustor clients may lose confidence in our similar trust products. In addition, the disgruntled beneficiaries may decide to sue us and may allege that we fail to fulfill our obligations as the trustee. Even if we are successful in defending ourselves in such litigation, such litigation could be costly and time-consuming and may distract our management’s attention and harm our reputation. Any of these could materially and adversely affect our trust business.

If we decide to provide liquidity support to certain troubled trusts, we may suffer losses on our proprietary assets. Our financial position and results of operation may also be significantly affected by the consolidation of such troubled trusts.

While we do not have any legal obligation to provide liquidity support to any troubled trust, we may, based on our business judgment and consideration of various factors, decide to use our proprietary funds to provide liquidity support to certain troubled trusts in certain circumstances. See “Risk Management — Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management — Risk Management of Troubled Trusts”. All of the troubled trusts that we provided liquidity support to have been consolidated in our financial statements in accordance with IFRS. While under PRC laws and regulations, the assets of trust schemes under our management are distinct and separate from our proprietary assets and we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee, such liquidity support may subject our proprietary assets to risk of loss. While, at the time we decide to provide liquidity support to a troubled trust, we always believe it is likely that the relevant counterparty or its guarantor would eventually fulfill all of their payment obligations or the value of the collaterals would be sufficient to cover all such payment obligations, it may become evident after we have provided the liquidity support that some of the assets held by these trusts were impaired due to subsequent events. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, among our total

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impairment losses on loans to customers, RMB170.3 million, RMB243.3 million, RMB23.8 million, RMB24.9 million and RMB33.2 million, respectively, were related to trusts for which we provided liquidity support, representing approximately 17.3%, 22.6%, 2.9%, 8.8% and 8.3% of our net profit for the respective period. As of May 31, 2017, we made allowance for impairment losses on loans to customers of RMB280.3 million, of which RMB177.6 million were related to trusts for which we provided liquidity support. Based on our business judgment and consideration of various factors, we may continue to provide liquidity support to troubled trusts that may emerge in the future. We cannot assure you that we will not suffer additional losses on our proprietary assets as a result of the provision of such liquidity supports. For impact on our financial statements brought by the above consolidation, please refer to “Financial Information — Factors Affecting Our Results of Operations — AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes” for details.

Certain risks relating to real estate development may expose our real estate trusts to various risks and uncertainties.

Our real estate trusts traditionally provides debt financing to project companies established for the relevant real estate development projects. As real estate development is a lengthy process during which many unpredictable events could occur, our real estate trusts are exposed to certain risks associated with the projects they invest in.

Before a real estate development project generates any revenue, the real estate developer will incur significant costs, including land use rights acquisition costs and construction costs. It generally takes a long period of time before a real estate development project starts to generate revenues and there is no assurance that the development project will be completed within a reasonable period of time. The risks that a real estate development project may be exposed to include but are not limited to the following:

- the real estate developer may not be able to obtain the requisite certificates, permits and government approvals on time;
- the real estate developer may not be able to complete the construction on schedule or within budget, due to a variety of factors including shortages or increases in costs of raw materials, equipment, technical personnel and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors and sub-contractors, accidents, changes in government policies, changes in market conditions, delays in obtaining the requisite certificates and permits and approvals from relevant authorities, and other unforeseen problems and circumstances;

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- the real estate developer may lease or sell the properties at rental rates or sales prices below their expectation or experience delays in the leasing or sale of such properties, all of which will have material adverse effect on their repayment ability; and
- occupancy rates, rental rates and sale prices of the properties and market liquidity may fluctuate depending on a number of factors, including market and economic conditions, which may materially and adversely affect the real estate developer's revenues and cash flows, thus affecting their repayment ability.

If any of the above risks materializes, the real estate developer may not be able to repay the debt financings provided by our trusts on time or at all, and therefore, may result in substantial impairment risks to such trusts.

Any deterioration in the ability of local governments and their financing platforms to repay debt or any change in national policy relating to local government financing platforms may have an adverse impact on the financial condition or results of operations of our governmental platform and infrastructure trusts.

Local government financing platforms primarily engage in financing activities wholly or partially supported by direct or indirect repayment commitments or guarantees from local governments, and they provide support to finance various infrastructure development projects. Our governmental platform and infrastructure trusts have extended loans to the financing platforms as well as purchased their accounts receivables from local governments.

Since 2010, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that guide PRC banks and other financial institutions to strengthen their risk management measures regarding loans to local government financing platforms. In addition, recent media publications have continued to express concerns about the level of debts of local government financing platforms. We cannot assure you that any measures taken by us are or will be effective or sufficient to protect us from any default by local government financing platforms. Any unfavorable economic developments, changes in government policies, deterioration of the financial condition of local governments or other factors may undermine the ability of local government financing platforms to repay debt, which may in turn have an adverse impact on the financial condition or results of operations of our governmental platform and infrastructure trusts.

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Our securities investment trusts and our proprietary securities investments may be materially and adversely affected by external uncertainties resulting from capital markets, macroeconomic conditions and regulatory environment.

Our securities investment trusts and our proprietary securities investments are directly affected by the inherent risks associated with the capital markets in China, such as market volatility, overall investment sentiments, fluctuations in capital raising and trading volumes and the creditworthiness of the securities industry. Our securities investment trusts and our proprietary securities investments are also subject to the macroeconomic conditions in China, such as GDP growth, liquidity, financing cost, interest rate changes, monetary policies, fiscal policies and other macroeconomic policies, as well as legislation and regulations affecting the financial and securities industries. Unfavorable economic or capital market conditions may materially and adversely affect the value of the securities held by our securities investment trusts and our proprietary securities investments. As a result, the NAV of our securities investment trusts may decrease. Our trustee's remuneration from such trusts will decrease accordingly. If we also act as the investment advisor, our profit sharing from the trusts may be wiped out and our reputation as an investment advisor may be tainted. For open-end securities investment fund trust scheme, investors may decide to redeem large amount of their trust units in the trusts and thereby the AUM of these trusts will be reduced accordingly. Disgruntled investors who suffer any loss from investments in our securities investment trusts may even file claims against us and ask us to compensate for their losses. Even if such claims are meritless, they may divert our management's attention, cause us substantial costs to defend ourselves and potentially harm our reputation. For our proprietary securities investments, the decline in their fair value may cause us to recognize fair value loss on these financial instruments. If regulatory or policy changes place restrictions on the form of investment we may adopt in our securities investment trusts or our proprietary securities investments, we may not be able to yield a favorable return from these trusts as we expected. Any of the above could have a material adverse effect on our business, financial condition and results of operation.

Our indirect investment trusts may not be able to effectively protect the value of their investments in privately held companies or exit their investments in a timely manner and with reasonable returns on the investments.

Some of our indirect investment trusts invest in equities or equity-linked securities, such as convertible bonds, of unlisted companies. While we normally participate in the management of the investee companies indirectly through limited partnership with a view to protect interests of our trustors, the controlling or major shareholders of the investee companies or their management may make business, financial or management decisions that may not align with our interests and, as a result, may prevent us from maximizing the value of our trustors. While we normally have certain information rights, we may not be fully aware of issues arising from daily operations and legal compliance of these companies, and even if we are aware, we may not be able to cause these companies to resolve the issues due to our limited and indirect influence on them. Such issues, while left unresolved, may materially and adversely affect the value of our investments in these companies.

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We normally seek to exit the investments and realize investment gain mainly through IPOs of the investee companies and subsequent resale of their shares in the public market. If we are unable to exit from the investee companies in the manner, schedule and price as expected, or if we incur additional legal costs arising from disputes, litigation and other legal proceedings, the value of the trust assets of the relevant trusts may be materially and adversely affected.

Our private wealth management business faces various risks and significant competition.

Seeing the great potential of private wealth management business in China, we are actively expanding our private wealth management business. We have established two types of such trusts, the family trusts and the discretionary wealth management trusts. However, such business is still at its early stage of development in China and we face various challenges relating to the development of this business, including but not limited to,

- While HNWI clients in China are the targeted clients of this business, many of them are not familiar with wealth management trusts and we need to spend significant efforts to educate these clients and we cannot assure you that our efforts will be fruitful.
- We have been cooperating with commercial banks in China to develop this business and develop HNWI clients. We cannot assure you that we will be able to expand or maintain such cooperation. In particular, many commercial banks are also developing their own private banking business which will compete with our private wealth management business. We also face competition from securities firms that provide similar wealth management services to HNWI clients.
- A key to the private wealth management business is the ability to help our clients allocate their assets into different types of investment products and select the best investment products in the market for them. This would require an experienced wealth management advisory team that have deep knowledge of the financial markets and products in China, as well as a customer service team that can provide high-quality service to these clients, and we cannot assure you that our wealth management advisory team and customer service team will be able to meet such standards in a timely manner.
- Given the significant resources we may need to devote into this business and the limited volume of such business at the moment, we may not be able to generate sufficient revenue from this business in a timely manner to cover our increased costs.

If we fail to deal with the above challenges, our private wealth management business may not achieve the growth as we expected, and our financial condition and results of operation may be adversely affected.

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As China did not have a trust assets registration system until recently, trust assets may not be sufficiently protected, which could reduce our clients' confidence in the trust arrangements.

China did not formally establish a system for the registration of trust assets until 2017. While China established a trust assets registration system in September 2017, the trust schemes that were established prior to the launch of the system and the terms of which would expire before June 30, 2018 (inclusive) are not required to be registered. As such, even though the PRC Trust Law has provided that the trust assets are separate from trustor's own assets as well as trustee's proprietary assets, and that trust assets will be treated separately in the event of a bankruptcy of or lawsuit against the trustor/trustee, there may not be adequate legal protection for those trust assets which are not registered in the system. Disputes may arise as to the status of those assets, and courts could be unable to decide whether those assets have been entrusted into a trust as there is no public record for such entrustment. If those assets which the trustor believes to be trust assets fail to be recognized as such by the court, these assets may not be able to enjoy the benefits of being treated as separate assets, and could be accessed by the creditors or subject to compulsory enforcement by the court. The ability to separate and shield trust assets from the trustors and their creditors is one of the most significant advantages of trust arrangements. Any deficiency in legal protection of trust assets may cause our clients to lose confidence in the advantage of the trust arrangement. As a result, our trust business may experience less popularity and decrease in client numbers, which would have an adverse effect on our operations and financial condition.

Our trusts may be terminated prior to the expiration of their original term, which could result in decrease in trustee's remuneration we can receive.

Our trusts may be terminated prior to the expiration of their original term upon the occurrence of certain events specified in the trust contracts. See "Business — Our Trust Business — Terms and Termination of Trusts". Some trusts may be early terminated because of the early repayment of the financings by the relevant counterparties. Some trusts may be early terminated by us considering increased risk exposure. If our trusts are terminated prior to the expiration of their original term, the amount of the trustee's remuneration that we can receive from the trusts may be reduced accordingly, which will negatively affect our fee and commission income from the trusts.

Our trust business depends on our ability to raise funds for our trusts and manage such funds according to the trust contracts. Decline in the size of our trust AUM or poor management of the trust funds may materially and adversely affect our trust business.

Our ability to raise funds for our trusts depends on a number of factors, many of which are beyond our control. Our trustor clients may reduce or withdraw their investments in our trusts due to market volatility and unfavorable economic conditions as well as when their investment objective is satisfied. Any mistake in our management of the trust, or unwise

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investment decisions we may make based on inaccurate assessment of the market and economy conditions, could result in poor performance of our trusts, which may in turn increase the difficulty for us to raise new funds. Our existing and potential trustor investors continuously assess our management performance by taking into account the market benchmarks and performance of our competitors, which may affect our ability to raise funds for existing and future trusts. We had 616, 586, 440 and 124 trusts liquidated in 2014, 2015, 2016 and the five months ended May 31, 2017, with aggregate trust AUM of RMB89,253 million, RMB145,932 million, RMB103,076 million and RMB46,439 million, respectively. The annualized comprehensive rate of return on our liquidated trusts, which was calculated based on the definition and calculation method set by CBRC, was 6.41%, 7.27%, 7.53% and 6.64% in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. The annualized comprehensive rate of return on liquidated trusts of all trust companies in China calculated using the same method which was 7.19%, 9.89% and 7.4% in 2014, 2015 and 2016, respectively according to China Trustee Association. Our annualized comprehensive rates of return on liquidated trusts were relatively lower, which we believe was primarily due to our relatively more prudent investment approach and general preference towards safer projects with lower risks. The performance of our trust schemes may also differ significantly from one another. Some of our trust schemes are investment trust schemes that invest in equity products, such as equity securities and mutual funds, and such equity products are subject to the fluctuation of China's public stock market. Among others, annualized comprehensive rates of return on our liquidated financing trusts were 8.23%, 8.19%, 8.36% and 7.23% in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. Annualized comprehensive rates of return on our liquidated investment trusts were 26.65%, 8.44%, 6.80% and 8.35% in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. The annualized comprehensive rate of return on our liquidated trusts ranged from loss of 22.6% to gain of 459.0% in 2014, loss of 0.2% to gain of 206.4% in 2015, loss of 64.2% to gain of 47.6% in 2016 and loss of 3.8% to gain of 82.7% in the five months ended May 31, 2017. As such, the performance of one trust scheme is not representative of the performance of our other trust schemes, and the performance of our trust schemes in the past may not be representative of our trust schemes in the future.

With respect to our unliquidated trusts, we will not know their actual rates of return until their subsequent liquidation. For some of our unliquidated trusts, we may estimate an expected rate of return based on the planned use of trust assets as specified in the trust contracts and contracts with relevant counterparties. We may inform our trustor clients of such expected rates of return in the relevant trust documents but we do not promise, given that the PRC laws and regulations prohibit us from promising, any minimum return on the trust assets. In order to illustrate the likely performance of our trusts in different categories regardless of whether they are liquidated or unliquidated, we have calculated the weighted average annualized expected rate of return of all of our trusts for which such expected rates of return are available, which included (i) 119, 55, 87 and 116 financing trusts with trust AUM of RMB27,957 million, RMB17,047 million, RMB34,063 million and RMB51,193 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, (ii) 54, 96, 73 and 74 investment trusts with trust AUM of RMB19,273 million, RMB17,357 million,

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RMB22,263 million and RMB22,650 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, and (iii) 700, 460, 452 and 454 administrative management trusts with trust AUM of RMB229,181 million, RMB151,380 million, RMB142,477 million and RMB132,148 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The weighted average annualized expected rates of return as so calculated of all of our trusts for which such expected rates of return are available were 8.3%, 8.5%, 6.1% and 6.1% for such financing trusts, 8.7%, 7.8%, 6.6% and 6.3% for such investment trusts, and 7.7%, 7.5%, 6.7% and 6.8% for such administrative management trusts, in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. The annualized expected rates of return of such financing trusts ranged from 5.8% to 18.0% in 2014, 6.7% to 18.0% in 2015, 4.3% to 18.0% in 2016 and 4.3% to 18.0% in the five months ended May 31, 2017; the annualized expected rates of return of such investment trusts ranged from 3.3% to 12.0% in 2014, 3.3% to 12.5% in 2015, 3.3% to 9.8% in 2016 and 2.5% to 10.0% in the five months ended May 31, 2017; and the annualized expected rates of return of such administrative management trusts ranged from 4.4% to 20.0% in 2014, 0.7% to 24.0% in 2015, 0.7% to 24.0% in 2016 and 0.7% to 24.0% in the five months ended May 31, 2017. As comparable information on the trust schemes of other trust companies in China are not publicly available, the expected rates of return of our different types of trusts in the history may be viewed as relatively low by our potential trustor clients.

While we have successfully attracted a large number of trustor clients as they recognize the quality of our services and the prudence of our risk management system and many of them have been loyal clients of our trust products, we cannot assure you that, if the rates of return on our trusts are deemed by our trustor clients to be relatively low, it will not be viewed negatively by our trustor clients and therefore makes it more difficult for us to maintain or grow our trustor client base in the future. In addition, while we have not received any complaint from our trustor clients or beneficiaries as a result of the underperformance of the trust schemes managed by us, we cannot assure you that our trustor clients or beneficiaries will not raise such complaint in the future and, regardless of the merit of such complaint, it may divert our management's attention and have adverse effect on our trust business.

Our income from trust business comes from our fixed trustee's remuneration, which is often based on our trust AUM, and our floating trustee's remuneration when we also act as the investment advisor, which is often based on the investment returns on our trusts. As such, if our trust AUM declines or the performance of our trusts deteriorates, our trustee's remuneration will decrease, and as a result, our income and results of operation may be materially and adversely affected.

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As we have benefited from our strong foothold in Shandong Province, any adverse change in Shandong may materially and adversely affect our business, financial condition and results of operation.

As the only trust company currently headquartered in Shandong, we have benefited a lot from the historical development and rapid growth of Shandong economy. As a result, any adverse change in the economic development or financial condition of Shandong, or any deterioration in the business and financial conditions of our counterparties located in Shandong, or any significant natural disaster or catastrophic event occurring in Shandong may materially and adversely affect our business, financial condition and results of operations.

Our proprietary trading activities are subject to market volatility. If the market experiences significant adjustment or we make mistakes in our investment decisions, our financial condition and results of operations may be materially and adversely affected.

We trade securities such as listed shares and mutual funds on our own account. Trading of securities is subject to market volatility and, as a result, the results of our trading activities generally correlate with the performance of China's securities market.

The performance of our proprietary trading activities also relies on our investment decisions based on the assessment of existing and future market conditions. We closely monitor the market value of our investment portfolio and actively refine the structure of our portfolio based on market conditions and internal risk management guidelines. Such investment decisions involve judgments and assumptions made by our management. If our investment decisions fail to effectively reduce losses while capturing gains, or the judgments and assumptions made by our management fail to reflect the actual market volatility, our proprietary trading activities may not achieve the investment returns we anticipate or may even suffer material losses, any of which could materially and adversely affect our business, financial condition and results of operations.

In addition, the values of certain types of our assets, such as financial assets at FVTPL and available-for-sale financial assets, are marked to market. Net changes in fair value on our financial assets at FVTPL are recorded as our operating income or loss, and therefore directly affects our results of operations. If the management evaluates that the decline in value of available-for-sale financial assets is not temporary, such decline in the value can result in the recognition of impairment losses. This evaluation is a matter of judgment by the management, which includes the assessment of various factors. See "Financial Information — Critical Accounting Policies and Estimates". If we recognize significant impairment losses, our results of operations may be materially and adversely affected.

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Furthermore, we will adopt IFRS 9 from January 1, 2018, which will replace existing guidance we adopted in connection with recognition and measurement of financial instruments. Among others, IFRS 9 includes revised guidance on the classification and measurement of financial instruments, and a new expected credit loss model for calculating impairment on financial assets. The adoption of IFRS 9 is expected to significantly change the way we classify and measure our financial assets, therefore, significantly affect our operating results and financial position. For example, we are required to use more forward-looking information instead of objective evidence of impairment as a precondition for recognizing impairment losses. In particular, calculation of impairment of financial instruments on an expected impairment loss basis will result in an earlier recognition of, and may result in an increase in, impairment allowances. We are assessing the potential impact on our financial statements resulting from the application of IFRS 9 and we have not completed our assessment of the full impact of adopting IFRS 9. Its possible impacts on our operating results and financial position cannot be quantified at current stage. In addition, we are also required to further adjust and improve the flexibility and reliability of our IT systems in order to adapt to the complex calculation environment of IFRS 9. For more details, please also refer to “Financial Information — Principal Components of Consolidated Income Statements — Impact of the Revised IFRS 9 ‘Financial Instruments’” and Note 2.1(5) to the Accountants’ Report in Appendix I to this prospectus.

We had negative net operating cash flows during some of the Track Record Period and we may continue to record negative net operating cash flows in the future, which may negatively affect our financial position.

During the Track Record Period, while we had positive net operating cash flows in 2014 and 2015 and the five months ended May 31, 2017, we had negative net operating cash flows of RMB61.9 million in 2016 and RMB50.3 million in the five months ended May 31, 2016. Among others, an important reason for our negative net operating cash flows was that our consolidated trust schemes granted substantial amount of additional loans and made additional equity investments accounted for as financial assets at FVTPL during the relevant periods. For additional information, see “Financial Information — Liquidity and Capital Resources — Cash Flows — Operating Activities”. As we may continue to invest in trust schemes that provide loans to customers or invest in financial assets at FVTPL and may consolidate such trust schemes under IFRSs, we may continue to record negative net operating cash flows in the future, which may negatively affect our financial position.

We face risks relating to our strategic equity investments.

We have made strategic investments in a number of investee companies. See “Business — Our Proprietary Business — Allocation of Our Proprietary Assets — Long-Term Equity Investments”. Making an accurate investment decision requires us to carefully identify and select an investee company based on its business, financial condition, operations and condition of industry in which it operates. In general, this process involves a systematic analysis and estimation of the investee company’s profitability and

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sustainability. However, we may make unsound investment decisions due to fraudulent and concealed, inaccurate or misleading statements from an investee company in the course of our due diligence, which could lead us to mistakenly estimate the value of the investee company and affect our ability to make profit from such investments. In addition, our understanding of and judgment on the industry in which the investee company operates or its business may deviate and result in inaccurate investment decisions.

We have substantial influence over some of these investee companies and have been required to use equity method to account for our equity interests in them under IFRSs. As a result, we recognize our share of profits or losses of these investee companies in our consolidated income statements. In 2014, 2015 and 2016 and the five months ended May 31, 2016 and 2017, our share of profits of the investments accounted for using the equity method was RMB94.6 million, RMB175.3 million, RMB138.2 million, RMB54.9 million and RMB60.5 million, respectively. Our results of operations will continue to be significantly affected by the results of operations of these investee companies as long as we continue to have substantial influence over them. We cannot assure you that we will continue to achieve consistent returns on our strategic equity investments in the future, or that the amount of such returns will be comparable to those we recognized during the Track Record Period. Our share of profits or losses accounted for using the equity method is largely dependent on the performance of these investee companies and is subject to various factors beyond our control. In addition, if any of our investee companies experiences a slowdown in business or financial performance, our prospects and results of operations would be adversely affected. For example, we invested in Fullgoal Fund Management Co., Ltd., a fund management company in China, and its performance was subject to significant volatility during the Track Record Period due to the changing market conditions in the PRC. As a result, the investment return of the relevant equity interests we held in our investee companies are subject to uncertainty, which in turn introduces uncertainty to our financial position and results of operations. Furthermore, there can be no assurance that the investee companies will make dividend distribution in the future as we do not have control over the investee companies. As a result, even if the investee companies report profits, we may not receive any cash from them until dividends are received.

We have significant influence but do not control the investee companies which are accounted for using equity method. However, we may lose such significant influence in the future. As we could not control the business decisions of these investee companies, we may not be able to profit from such investments as we anticipated. In such cases, the financial condition and results of operations of our business could be materially and adversely affected.

Finally, since these investments are not as liquid as other investment products, if we are forced to dispose of any such investment during adverse market conditions, or when we have disagreements with other shareholders or the management of these investee companies with respect to their development strategies, business operations and management and we cannot resolve such disagreements to our satisfaction, we may incur investment losses if we cannot dispose of the investment at an appropriate price.

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The allowance for impairment losses on our loans to customers may not be sufficient for covering the actual losses that we may incur in the future.

The allowance for impairment losses on our loans to customers is determined according to the assessments and forecasts on various factors which may affect the quality of loans. For example, to determine allowance for impairment losses, such factors shall include, but are not limited to, a borrower's financial condition, solvency and willingness to repay, the realizable value of the collateral, the ability of the borrower's guarantor to perform the contract, as well as China's economic condition, policies for the industry, interest rates, accounting standards, laws and regulatory environment. Many of these factors are beyond our control, and the judgments and forecasts on the aforesaid factors by us may not turn out to be the same as the actual conditions emerging in future. Any change of the aforementioned factors may make our allowance for impairment losses insufficient to cover the actual losses, and as a result, may require us to increase the allowance for such impairment losses. Hence, our results of operations and financial condition may also be materially and adversely affected.

We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively.

Since we operate our trust business on a nationwide basis, we compete with all other trust companies in China. As of the Latest Practicable Date, there were 68 trust companies in China, including us. The principal competitive factors in the business we operate include client base, knowledge of the relevant industries, geographic network of operation, active management capability, innovation capability, reputation, creditworthiness, shareholder background and support.

For our financing trust business, we essentially provide private placement investment banking services to corporations and institutions in various industries. As such, we also compete with other financial institutions that may offer financings to similar types of clients. For example, we compete with offshore investment banks who helped Chinese real estate developers issue large amount of bonds in the overseas markets in recent years. While commercial banks have been restricted from providing loans to certain industry in the past, such policy restraints may be removed in the future and they may start to provide such loans, thus competing with us for similar clients and assets. In addition, we may be competing with Chinese securities firms for our target clients.

For our investment trust business, we essentially provide asset management and wealth management services to institutional investors and HNWIs to satisfy their need for investment opportunities. As such, we also compete with fund management companies, securities companies and private banks in the PRC and other institutions qualified to conduct asset management and wealth management business. Primary factors affecting our competitiveness in this business include the depth and breadth of our financial products and services, the experience and capabilities of our professional teams, our

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ability to acquire high quality projects, our management and risk control capabilities, and our disposal capabilities and level of returns of investment.

Some of our competitors have certain competitive advantages over us which enable them to have a better access to potential clients than us, including richer financial resources, stronger brand recognition, a broader range of products and services offering, more extensive operating experience, higher market share and a more extensive distribution network, stronger business relationships, and a longer operational track record in the relevant geographic markets. Many of our competitors are subject to less stringent regulations and capital requirements as well.

While we believe China's trust industry has great growth potential, there can be no assurance that we will be able to maintain our competitive position, and if we fail to effectively compete with our competitors, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business operation is subject to various operational risks.

Our business operations depend, to a large extent, on the proper operation of business, accounting and other data processing systems, and the proper handling of documents relating to our business, finance and operation, by our staff. If our staff make any mistake in operating our business or handling our systems and documents, we may suffer from business disruption, financial loss, intervention by regulatory authorities and reputational loss. Although we have formulated detailed rules for all aspects of our business operation, and provided regular training on the management of operational risks to our staff, we cannot assure you that they will not make any operational mistakes. If any operational errors occur, we may not be able to identify or rectify these operational mistakes or solve the problems caused thereby in a timely manner, or at all. Such problems may include failure to carry out the operation of key business, wrong execution or delay, impairing our ability to monitor and manage data or non-compliance with regulatory requirements. The custodian bank we engage for each trust may also make mistakes during the custodian of trust assets, which may cause losses to the trust assets. If we cannot solve these problems in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

Our business operation is exposed to market risk.

Our business is exposed to risks associated with many constantly changing factors in the market, including but not limited to the economic cycle, the interest rate fluctuations, inflation, as well as changes in real estate market and securities market. With our risk management system in place to detect and respond to market changes, the negative effect on the value of our trust assets may still be unable to avoid, which could adversely affect our reputation and trustor clients may question our ability to manage the trust assets.

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Our business operation is exposed to liquidity risk.

Even though our trust business does not require a significant amount of cash as funds for most of our trusts are provided by our trustor clients, maintaining sufficient liquidity is still important to our business operations. Pursuant to the *Administrative Measures on Trust Industry Protection Fund* issued by CBRC in December 2014, all trust companies in China established a mutual support fund to provide liquidity support to trust companies in certain unusual circumstances, and each of the trust companies is required to subscribe for certain amount of units in the fund. See “Business — Our Proprietary Business — Allocation of Our Proprietary Assets — Trust Industry Protection Fund”. As a trust company in China, we are not allowed to incur any debt in operating our business other than through inter-bank borrowings or otherwise allowed by the CBRC. While we started to borrow short-term loans from China Trust Protection Fund Co., Ltd. in June 2016, we may not be able to obtain similar loan or any other external financing in the future. Any failure to maintain sufficient liquidity may have a material adverse effect on our business, financial condition and results of operation.

Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not be adequate or effective in identifying or managing risks to which we are exposed.

The complexity of our operations and trusts exposes us to various risks, including market risk, credit risk, operational risk, liquidity risk, compliance risk, legal risk and other risks. We have established risk management and internal control systems and procedures to manage potential risks associated with our trust business, and we have been dedicated to continuously improving these systems and procedures. See the section entitled “Risk Management” for further details. However, the design and implementation of such systems, including internal control environment, risk identification and evaluation, effectiveness of risk control and information communication, are restricted by the information, tools, models and technologies available to us, which may not be accurate, complete, up to date or properly evaluated. Also, many of our methods for managing risk exposure are based upon observed historical market behavior and our experience in this industry. Future risk exposure can be significantly greater than what these methods have historically indicated. Thus, our systems and procedure may not be adequate or effective in identifying or mitigating our risk exposures in all market environments or protecting us against unidentified or unanticipated risks. For example, if any of our trusts, including administrative management trusts, is involved in any improper or illegal activities, our systems and procedure may not be able to effectively identify and prevent such activities. As advised by our PRC legal advisor, the applicable PRC laws and regulations only provide that (i) a trust company shall properly fulfill its responsibilities as the trustee in accordance with relevant laws, regulations and agreements and (ii) a trust company shall comply with all legal requirements applicable to financial institutions operating in China. There are no specific provisions under PRC laws and regulations that impose liability on a trust company if the trusts under its management, including both actively managed trusts and administrative management trusts, are involved in improper or illegal activities. Therefore,

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as advised by our PRC legal adviser, even if trusts under our management are found being involved in improper or illegal activities, as long as we have fulfilled all of our obligations and complied with all applicable requirements, we would not be held responsible or legally liable. Nonetheless, there is no assurance that we can always identify potential issues on a timely basis or at all, due to the limitation of the due diligence work by its nature, in which circumstance, we might be subject to claims or investigations that could bring damages to our reputation or divert attention and resources of our management even if we could successfully defend ourselves. In addition, while we are not aware of any improper or illegal activity of our trusts and there had been no penalties or administrative measures imposed or initiated against us due to such activities during the Track Record Period, we cannot assure you that we will not receive penalties or be identified as non-compliance due to the any improper or illegal activity of our trusts in the future.

Also, our risk management and internal control systems require constant monitoring, maintenance and continual improvements by our senior management and staff, and efforts to maintain these systems and procedures may be ineffective or inadequate. Furthermore, fraud or other misconduct by our employees, such as unauthorized business transactions, bribery and breach of our internal policies and procedures, or by third parties, may be inherently difficult to detect or prevent in a timely manner. It could subject us to financial loss and sanctions imposed by governmental authorities while seriously damaging our reputation. This may also impair our ability to effectively attract prospective customers, develop customer loyalty, obtain financing on favorable terms, compete in invitations to tender and conduct other business activities. For example, one of our former senior management members was being investigated and subsequently arrested for suspected bribery in July 2017. The case is still under investigation and our Company was ordered to freeze the beneficial rights of an individual administrative management trust. As of the Latest Practicable Date and to the best knowledge of our Company, neither our Company nor any of our Directors, Supervisors, senior management or employees is investigated or prosecuted in connection with this incident. Our Company has received legal advice from a special PRC legal counsel and it is believed that we would not be held responsible for this former senior management member's alleged bribery offences and we have duly performed our obligations under the relevant trust contracts and our duties as a trustee, therefore there has no legal basis to claim any compensation from us acting as the trustee. We have reviewed and implemented measures to improve our anti-corruption mechanism, risk management and internal control system since the occurrence of the incident. Please see "Business — Legal and Regulatory Proceedings — Incident Relating to A Former Senior Management Member" for more details. There is no assurance that our enhanced measures can be adequate for us to detect and prevent the fraud or other misconduct, either previously conducted or may occur in the future, by our current or former employees or by third parties.

Moreover, in markets that are rapidly developing with regulations evolving at the same time, the information and empirical data that we rely on may quickly become outdated, and our historical data may not be able to adequately reflect risks that may emerge from time to time in the future.

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In addition, financial institutions typically utilize various financial instruments to manage risks associated with their businesses. The current state of the financial markets in the PRC and current PRC laws and regulations, however, restrict the types of financial instruments we may use to mitigate different risks, thus affects our risk management capability and effectiveness. As a result, we may be unable to take timely and appropriate measures to manage our risks due to the limited risk management methods and techniques available to us.

We cannot assure you that our risk management and internal control systems will always be adequate and effective. Failure to address any internal control matters and other deficiencies in a timely and effective manner may result in investigations, disciplinary actions or even prosecution being taken against us or our employees, or disruption to our risk management system, any of which may have a material adverse effect on our business, financial condition, results of operations and our reputation.

We are subject to certain capital requirements, which may restrict our business activities.

We are subject to capital requirements imposed by regulatory authorities. According to the requirements of the CBRC, our Net Capital shall not be less than RMB200 million, and shall not fall below 100% of our total risk-based capital or 40% of our net assets. Net Capital for trust companies is defined as our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by CBRC. The risk deductions are determined by CBRC. See “Financial Information — Net Capital Requirements”. Furthermore, we are required to subscribe to the Trust Industry Protection Fund in an amount equal to (i) 1% of our net assets, (ii) 1% of the newly issued amount of the fund trusts, and (iii) 5% of the trustee’s remunerations of our newly established property trusts as required by relevant regulations. See “Business — Our Proprietary Business — Allocation of Our Proprietary Assets — Trust Industry Protection Fund”. Our growing business and AUM may subject us to increasing contribution to the Trust Industry Protection Fund. In addition, if we fail to meet these capital regulatory requirements, the CBRC may take regulatory measures including requiring us to take measures to adjust our business and asset structure or replenish capital, and limiting the growth rate of our trust business. Such measures may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations depend on key management and professional staff and our business may be materially and adversely affected if we are unable to recruit, train or retain a sufficient number of qualified employees.

The success of our business, to a large extent, depends on our ability to attract and retain key personnel who possess in-depth knowledge and understanding of, and extensive working experience in the financial industry. These key personnel include, among other things, senior management, experienced trust managers, research and development

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personnel, investment advisors, wealth management advisors, customer service personnel, legal professionals, risk management personnel, IT specialists and other operational personnel. If any of our senior management or other key personnel joins our competitors or establishes a competing business, we may lose some of our clients, which may have a material adverse effect on our business. As a result, we devote considerable resources to recruiting and retaining these personnel. However, the market for quality professionals is highly competitive and we face increasing competition in recruiting and retaining these individuals as other trust companies and financial institutions are vying for the same pool of talent. In the face of such intense competition for talent, we may need to offer better compensation and other benefits to recruit and retain qualified professionals and additional costs may be incurred. Our business and financial condition could suffer materially if we are unable to retain our management team and other high-quality personnel, or cannot replace them upon their departure in a timely manner.

Any significant decrease in our profitability in the future would have a material adverse effect on our ability to recover our deferred income tax assets, which could have a material adverse effect on our results of operations.

We had deferred income tax assets of RMB35.9 million as of May 31, 2017. We recognize deferred income tax assets to the extent that our management estimates that it is probable that we will generate sufficient taxable profit in the foreseeable future against which such assets can be utilized. Therefore, the recognition of deferred tax assets involves significant judgment and estimates of our management on the timing and level of future taxable profits. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed, and the carrying amount of deferred income tax assets may be reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized. Accordingly, if our profitability in the future is significantly lower than our management's estimates when our deferred income tax assets were recognized, our ability to recover such deferred income tax assets would be materially and adversely affected, which could have a material adverse effect on our results of operations.

On December 21, 2016, January 6, 2017 and June 30, 2017, the MOF and the State of Administration of Taxation jointly issued the Notification on VAT Policies for Financial Sector, Real Estate Sector and Auxiliary Education Service Sector (關於明確金融、房地產開發、教育輔助服務等增值稅政策的通知) (Circular Caishui [2016] No. 140), the Supplementary Notice on Certain Issues in relation to Value-added Tax Policies on Asset Management Products (關於資管產品增值稅政策有關問題的補充通知) and the Notice on Certain Issues in relation to Value-added Tax on Asset Management Products (關於資管產品增值稅有關問題的通知), respectively, which interpreted the implementation of certain VAT policies for financial services sector. According to these circulars, we are subject to VAT at the tax rate of 3% for our business of operating asset management products, and are subject to VAT at the rate of 6% for other business. We believe the implementation of the new VAT policies will not have material impact on our tax burden.

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Failures of or inadequacies in our IT systems could have a material adverse effect on our business, financial condition and results of operations.

Our operations depend heavily on the ability of our IT systems to process, store and analyze a large amount of data, accurately process a vast number of transactions and offer services and products in a timely manner. The failure of normal operation or even inability in operation of any of such systems will expose us to financial losses, business disruption, intervention of regulatory authorities or reputational damage.

The proper functioning of our business processing, accounting, financial controls, risk management, customer service and other business is dependent on our IT systems and communication networks with the third parties. If the fundamental system which supports our business suffers from malfunction or disruption, including system problems or communication disruption of our systems and the systems of any third parties we engaged may be indirectly affected, which will have a material adverse effect on our ongoing business. These failures could be caused by, among other things, hardware failure, software program errors, computer virus attacks, network failure, conversion errors due to system upgrading or system relocation, failure to implement new IT initiatives, human errors, natural disasters, war, terrorist attacks, blackouts and unanticipated problems of facilities, many of which are beyond our control. Although we back up the different types of data on a daily, weekly or monthly basis and keep them in the safe deposit boxes of reputable banks, any prolonged disruption to or malfunction in the operation of our IT systems could limit our ability to monitor and manage data, control financial and operation conditions, monitor and manage our risk exposures, keep accurate records, provide high-quality customer service and to develop and sell profitable products and services. Recovery from such disasters may be unable to mitigate our losses incurred during such malfunction and disruptions. In addition, insurances or other precaution measures may only partly, if at all, indemnify our losses.

In addition, we provided online financial service platform and mobile service platform to our customers where they can login to check their account or make appointments for ordering new trusts. Disruption to or instability of our online financial service platform or mobile service platform could impair our ability to serve our customers and execute trades on their behalf and on our own account, which could materially and adversely affect our results of operations and reputation.

We update our IT systems and introduce new IT systems from time to time. However, delays, system failures or other accidents may occur during such system upgrades or introduction of new systems. In addition, the upgraded or new IT systems may not be able to achieve the anticipated processing capacity and availability, and may also not be able to meet the needs of our business growth in the future. Our failure to address these problems promptly, including any delay in the implementation of any upgraded or new information systems, could result in our inability to perform, or delays in performing critical business operational functions, the loss of key business data, or a failure to comply with regulatory

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requirements, which could have a material adverse effect on our business, financial condition and results of operations.

Investments in our Shares are subject to a number of restrictions, which may adversely affect your investment value.

Investments in our Shares must comply with the relevant regulatory restrictions, including but not limited to those restrictions imposed by the CBRC, and unless otherwise provided by the relevant authorities, a prior approval from the CBRC or its local offices is required for any individual or entity to hold our Shares, except for shareholding of tradable shares of a listed company not reaching 5% of our total Shares. If the Shareholder holds our H Shares increase their shareholdings above the 5% threshold together with its related parties without obtaining prior approval from the competent regulatory authorities, such Shareholders may be subject to sanctions by the regulatory authorities, which include, among other things, correction of such misconduct, confiscation of illegal gains (if any), and fines. Future changes in restrictions imposed by the government authorities on our Shareholders and the Shares they hold in us could materially and adversely affect your investment value.

In addition, Shareholders of us may not freely pledge our Shares for the benefits of themselves or others. Pursuant to the Guidelines for Governance of Trust Companies (信託公司治理指引), the shareholders of a trust company shall commit to not to pledge the shares of the trust company. In addition, according to our Articles of Association approved by the Shandong Office of CBRC, our Shareholders whose qualification to be approved by the CBRC or its local office (the shareholders hold our Domestic Shares and the Shareholders of our H Shares holding 5% or more of our total Shares) shall comply with relevant restrictive requirements of the CBRC in relation to pledge of shares. It is unclear that subject to current laws and regulations, whether the shareholder of our H Shares holding 5% or more of our total Shares is required to complete the filing procedures according to the relevant regulations on share pledge imposed by the CBRC. If the regulatory authorities make final decisions ruling that share pledges contemplated by the Shareholder of our H Shares holding 5% or more of our total Shares are subject to additional filing procedures or even more stringent additional procedures or requirements, the liquidity of the investment in our Shares may be further restricted which may adversely affect the investment value of the relevant Shareholders.

Government control of currency conversion, currency flow and exchange settlement may adversely affect the value of your investments or the market price of the H Shares.

Certain PRC based Cornerstone Investors and other subscribers under the Global Offering may be required pursuant to PRC foreign exchange control requirements to gradually dispose the H Shares they hold upon Listing within a certain prescribed time period from 12 to 18 months after the expiry of the relevant lock-up period, and remit the

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funds back to the PRC. Any sale by such investors pursuant to such PRC regulatory requirements may adversely affect the market price of our H Shares.

We may not be able to detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable anti-money laundering laws, anti-terrorism laws and other regulations in the PRC and overseas. The PRC Anti-money Laundering Law (中華人民共和國反洗錢法) and the relevant anti-money laundering laws and regulations in Hong Kong require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Please see the section entitled “Regulatory Overview” for details.

We have adopted policies and procedures for the detection and prevention of money laundering activities and terrorism-funding activities, which may not completely eliminate instances in which we may have been used by other parties to engage in money laundering and other illegal or improper activities. In the event that we fail to fully comply with applicable laws and regulations, the relevant government authorities may freeze our assets or impose fines or other penalties on us. We cannot assure you that there will not be any failure on our part in detecting money laundering or other illegal or improper activities which may adversely affect our business, reputation, financial condition and results of operations.

Our reputation may be adversely and materially affected and we may suffer other losses if we are not able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties in a timely manner.

We may encounter fraud or other misconduct committed by our employees, agents, clients or other third parties, which could result in violations of laws and regulations by us and expose us to regulatory sanctions. Even if such instances of misconduct do not result in any legal liabilities on our part, they could cause serious reputational or financial damage to us. Misconduct could include, but may not be limited to, committing contract fraud.

For example, in 2014, the head of one of our trust business departments was personally involved in a criminal investigation brought against the general manager of an independent third party who previously served as an investment advisor to some of our trusts. A public trial of the case was held in 2016 and we attended the trial as audience. Based on the information we obtained at the public trial, we understand that the case does not relate to any of our business, any of our trust products, any act of our employee on behalf of our Company or any of our other employees. On December 23, 2016 the court made a judicial decision to approve withdrawal of the case by the prosecutor. Although we do not expect our Company to incur any penalty or direct financial loss in connection with this case, our reputation may be adversely affected by the relevant media publications in

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association with this case. In addition, in 2015, the general manager of another independent third party who previously served as the trustors' representative engaged by the trustors of some of our trusts was arrested for alleged insider trading. By the time of the lawsuit, most of such trusts had been liquidated. Neither our Company nor any of our trusts was materially and adversely affected by this lawsuit. However, our reputation and the confidence in us of existing or potential investors may be adversely affected by the relevant media publications in association with this case.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner, or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to detect and prevent such activities may not be fully effective. We cannot assure you that a fraud or other misconduct will not occur in the future. Our failure to detect and prevent a fraud and other misconduct in a timely manner may have a material and adverse effect on our business reputation, financial condition and results of operations.

We may be subject to liability and regulatory action if we are unable to protect personal data and confidential information of our clients.

We are required to protect the personal data and confidential information of our clients under applicable laws, rules and regulations. The relevant authorities may impose sanctions or issue orders against us if we fail to protect the personal information of our clients, and we may have to pay compensation to our clients if we fail to do so. We routinely transmit and receive personal, confidential and proprietary information through our IT system. Any misuse or mishandling of such personal, confidential or proprietary information could result in legal liabilities, regulatory actions and reputational damage to us. Incidents of misusing, mishandling personal, confidential or proprietary information could negatively impact client confidence in us, which could materially and adversely affect our reputation and prospects.

Our Controlling Shareholders are able to exercise significant influence over us and may not act in the best interests of us or our other shareholders, and there is no assurance that there will be no change to the shareholding structure of our Company.

Our Company is currently controlled by Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital. Immediately after completion of the Global Offering, assuming that the Over-Allotment Option is not exercised, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital, as a group of persons, will be together entitled to exercise in general meetings voting rights attached to Shares representing approximately 51.95% of the issued share capital of our Company. As Lucion Group, Luxin

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Venture Capital and Shandong High-Tech Venture Capital will continue to be our Controlling Shareholders, they will be entitled to exercise significant influence over us, including matters relating to:

- nomination and election of the Directors and Supervisors;
- determination of business strategies and investment plans;
- determination of dividend distribution;
- change of use of proceeds; and
- review of any plans related to major corporate activities, including mergers, acquisitions or investments.

The interest of Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital may not be aligned with our or our other Shareholders' interests. As a result, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital may take actions that other Shareholders may not agree with or that are not in our, or our other Shareholders' best interests.

We do not have control over our shareholders who may transfer their stake to another party and cannot provide any guarantee or assurance that our key shareholders will remain the same. In addition, we may consider a range of available financing options, including equity injections from third parties, which may also lead to changes in our shareholding structure.

We may not be able to properly identify and deal with conflicts of interest, which could materially and adversely affect our business.

As we constantly expand the scope of business and client base, it becomes increasingly important for us to be able to address potential conflicts of interest, including situations where two or more interests within our businesses legitimately exist but are in competition or conflict. We may encounter conflicts of interest where (i) our services to a particular client or our own investments are in conflict, or are perceived to conflict, with the interests of another client; (ii) any of the non-public information obtained by any of our business departments through business channels is disclosed to our other business departments; and (iii) we may be a counterparty of an entity to which we also provide financial services or with which we have other business relationships. Our failure to effectively prevent imprudent use of information or manage conflicts of interest could harm our reputation and adversely affect clients' confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory procedure. Any of the foregoing situations could materially and adversely affect our business, financial condition and results of operations.

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We may be involved in litigations, arbitrations and other disputes in the course of our businesses, which may expose us to potential liabilities.

We are exposed to risks associated with litigation relating to our business operations, including the risk of lawsuits and other legal actions relating to our trust contracts with trustor clients, our financing and investment contracts with counterparties, our obligation as the trustee under our trusts, sales practices, fraud and misconduct, as well as protection of personal and confidential information of customers. Lawsuits and arbitration claims against us may arise in the ordinary course of our business. As of the Latest Practicable Date, we were involved in five pending material unresolved litigations and arbitrations as the plaintiff and applicant. These litigations were mainly brought by us against the relevant counterparty clients due to their default under the loans granted by our trusts. At the same date, we were involved three pending unresolved litigations, two as the defendant and one as an interested third party. These three litigations were brought against us or the counterparties by the trustor clients of our administrative management trusts due to the losses they suffered. For more information, please refer to “Business — Legal and Regulatory Proceedings — Litigations and Arbitrations”.

Where we assess that there is a probable risk of loss, we will make provisions for the loss based on the relevant accounting policies. We will also make provisions for losses with respect to pending proceedings, arbitrations and other disputes against us. We cannot assure you that the judgments in any of the litigations or arbitrations in which we are involved would be favorable to us or that the provisions we have made for litigation, arbitrations or other disputes are adequate to cover all the losses arising from legal proceedings or other disputes. In addition, if our assessment of the risk changes, our views on provisions will also be changed. We expect that we will continue to be involved in various litigations, arbitrations and other disputes in the future, which may expose us to additional risks and losses.

In addition, we may have to pay legal costs associated with such disputes, including fees relating to litigation, arbitrations, appraisal, auction, execution and legal advisory services. Legal proceedings and other disputes may lead to inquiries, investigations, administrative penalties and proceedings by regulatory authorities and other government authorities and may result in damage to our reputation, additional operating costs and diversion of resources and management’s attention from our core business. The disruption of our business due to judgment, arbitration and legal proceedings against us or adverse adjudications in proceedings against the Directors, senior management or key employees would have a material adverse effect on our business, reputation, financial condition, results of operations and prospects.

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If we decide to expand our operation overseas in the future, we will be subject to additional risks associated with such expansion.

While all of our businesses are conducted in the PRC, we may consider expanding our business into overseas markets in the future, which will expose us to additional risks. For example, we may not be able to attract a sufficient number of new clients due to our limited coverage and brand recognition in such overseas markets and may fail to effectively compete in these markets. In addition, such expansion may continuously subject us to risks inherent in conducting business internationally, including but not limited to:

- failure to obtain and renew local government approvals, permits, licenses or documents in a timely manner or at all;
- difficulties in complying with local legal and regulatory requirements, including labor, industrial and tax regulations;
- possibility of cost overruns and other operating difficulties;
- challenges in managing the sales channels and expanding overseas distribution network, which may result in higher sales and marketing costs;
- difficulty in implementing internal control and risk management policies in overseas operations;
- insufficient management resources, difficulties in recruiting and retaining qualified personnel, as well as potential increases in labor costs;
- differences in accounting treatment in different jurisdictions;
- lack of understanding of the local cultural, commercial and operating environment, as well as the financial, management or legal systems in the relevant jurisdictions; and
- local political and macroeconomic environment or civil unrest.

If we are unable to manage the risks resulting from our expansion outside the PRC, our business, reputation, financial condition and results of operations may be materially and adversely affected.

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Any acquisition we may pursue in the future may not be successful.

While we do not have any acquisition plan, we may in the future seek opportunities to expand our business through acquisition of businesses that complement our existing business operations. Acquisitions involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management's attention, difficulties with integrating IT, financial and human resources systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations. We may be unable to identify suitable acquisition opportunities, negotiate acceptable terms or successfully acquire identified targets. The investigation of an acquisition or investment plan and the negotiation, drafting and execution of relevant terms, disclosure documents and other instruments will usually require substantial time and attention from our management and may incur substantial expenses for services provided by accountants, attorneys and other advisors. In addition, even if an agreement is reached relating to a specific acquisition or investment target, we may end the investment or acquisition due to various factors beyond our control. If such acquisition or investment plan is not implemented, the costs incurred up to that point for the proposed transaction may not be recoverable. Furthermore, we may not have sufficient capital resources to complete proposed acquisitions in the future.

The process of integrating an acquired business may involve unforeseen costs and delays or other operational, technical and financial difficulties that may require a disproportionate amount of management attention and financial and other resources. We may not be able to realize any anticipated benefits or achieve the synergies we expect from these acquisitions, and we may be exposed to additional liabilities of any acquired business. The failure to realize the expected synergies, successfully incorporate the acquired businesses and assets into our existing operations or minimize any unforeseen operational difficulties could have a material adverse effect on our financial condition and results of operations. In addition, future acquisitions may involve the issuance of additional shares of our Company, which may dilute your equity interest in us.

RISKS RELATING TO CHINA

The economic, political and social conditions in the PRC and government policies could affect our business, financial condition, results of operations and prospects.

We conduct our businesses in the PRC, all of our assets are located in the PRC, and all of our revenue is derived from the financial market in the PRC. Accordingly, our business, financial condition, results of operations and prospects are subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including but not limited to, economic structure, level of governmental involvement, level of economic development, growth rate, control of foreign exchange controls and allocation of resources.

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As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to those of developed countries. Although the PRC economy has transferred from a planned economy into a more market-oriented economy, the PRC government continues to exercise control over the economic growth through imposing governmental regulations and industry policies. Furthermore, despite the implementation of such reforms, changes in the PRC's political and social condition, laws, regulations, policies and diplomatic relationships with other countries could have an adverse effect on our business, financial condition or results of operations.

The PRC government has the power to implement macroeconomic measures affecting the PRC economy. The various macroeconomic measures adopted by the PRC Government to stimulate economic growth may not be as effective as expected in sustaining the current growth of the PRC economy. In addition, if any macroeconomic measure reduces the disposable income of the overall population who purchase financial products or services, such measures may have a material adverse effect on our business, financial condition, results of operations and prospects.

Though the PRC has been one of the world's fastest growing economies as measured by GDP growth in recent years, the PRC may not be able to sustain historical growth rates. Since the global financial crisis and subsequent economic slowdown, the GDP growth in the PRC has slowed down. The growth rate of China's GDP decreased from 10.6% in 2010 to 7.7% in 2012, and further decreased to 6.7% in 2016. An economic slowdown in the PRC could substantially and adversely affect the financial market in the PRC, which in turn could affect our financial condition and results of operations.

The PRC legal system has uncertainties that could limit the legal protections available to you. Holders of H Shares may not be able to enforce their rights successfully as shareholders in the PRC according to the PRC Company Law or Hong Kong regulatory provisions.

We are incorporated under the laws of the PRC, and our business is conducted in mainland China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. As a result, the legal protections available to you under the PRC legal system may be limited.

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Our Articles of Association provide that, except for the disputes arising out of the identification of Shareholders or the registry of Shareholders which can not be solved by ways of arbitration, disputes or claims between holders of H Shares and our Company, our Directors, Supervisors or senior management or holders of Domestic Shares, arising out of any rights or obligations conferred or imposed upon us by our Articles of Association, the PRC Company Law and related rules and regulations concerning our affairs, are to be resolved through arbitration. A claimant may elect to submit a dispute to either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center in accordance with their respective applicable rules. Pursuant to the Arrangement on the Mutual Enforcement of Arbitration Award between the Mainland and the Hong Kong Special Administrative Region (關於內地與香港特別行政區相互執行仲裁裁決的安排), awards that are made by the PRC arbitral authorities under the Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) can be recognized and enforced by Hong Kong courts. Our Articles of Association further provide that any arbitral award will be final and binding on all parties. Hong Kong arbitration awards pursuant to the Arbitration Ordinance of Hong Kong (香港仲裁條例) may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H Shares to enforce an arbitral award and no assurance can be given as to the outcome of any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H Shares of their rights under the articles of association of any PRC issuer or the PRC Company Law. In addition, the PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections, and our minority Shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC, and our assets are located in the PRC. In addition, our Directors, Supervisors and senior management reside within the PRC, and the assets of our Directors, Supervisors and senior management may be located within the PRC. As a result, it may not be possible to effect service of legal process within the United States or elsewhere outside the PRC upon most of our Directors, Supervisors and senior management, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

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On July 14, 2016, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), or the Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

In addition, we will be subject to the regulations under the Hong Kong Listing Rules and the Hong Kong Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to act in violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange or the SFC to enforce its rules. However, the Hong Kong Listing Rules and the Hong Kong Takeovers Code do not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

You will be subject to PRC taxation.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares of our Company (“non-PRC resident individual holders”) are subject to PRC individual income tax on dividends received from us. Pursuant to the Notice on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) issued by the SAT on June 28, 2011, the tax rate applicable to dividends received by non-PRC resident individual holders of H Shares of non-foreign invested enterprise issuers incorporated in the PRC is 5% to 20% (typically 10%), depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Dividend income of individual shareholders who are residents of countries that have not entered into taxation treaties with the PRC is generally subject to income tax at the rate of 20%. If we pay a dividend, we will be required to withhold tax at the applicable rate (which can be higher than 10% if the relevant individual shareholders and the tax rate applicable to such shareholder can be identified by the Company). In addition, according to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and the Regulation on

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Implementation of the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例), the income from the transfer of properties is subject tax under to the Individual Income Tax Law at a rate of 20%. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the MOF and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. Based on our knowledge as of the Latest Practicable Date, the PRC tax authorities have not in practice sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H Shares of the Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No. 897), promulgated by the SAT, on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

Government control of currency conversion may materially and adversely affect the value of your investments.

Our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is not freely convertible into foreign currencies. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on dividends declared on our H Shares. Under existing foreign exchange regulations of the PRC, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies through current account transactions without prior approval from the SAFE by complying with specific procedural requirements.

However, if the PRC Government were to impose restrictions on access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, foreign exchange transactions under a capital account in the PRC continue to be not freely convertible and require the approval of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or other capital activities.

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Furthermore, the net proceeds from the Global Offering are expected to be deposited overseas in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these net proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may adversely affect our business, results of operations and financial condition.

Future fluctuations in the value of the Renminbi could have a material adverse effect on our financial condition and results of operations.

All of our revenue and expenses are denominated in Renminbi, a currency not freely convertible into other currencies. The exchange rate of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions and the PRC Government's fiscal and currency policies. Since 1994, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and US dollar, has been based on rates set daily by the PBOC based on the previous business day's inter-bank foreign exchange market rates and exchange rates in global financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to US dollars was generally stable. On July 21, 2005, the PRC Government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On June 19, 2010, the PBOC announced that the PRC Government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. In April 2012, the PBOC enlarged the floating band for the trading price of RMB against the US dollar on the inter-bank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of RMB against the US dollar on the inter-bank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which could result in further appreciation or depreciation of the Renminbi against the US dollar. There can be no assurance that the Renminbi will not experience significant appreciation or depreciation against the US dollar in the future.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against U.S. dollars, Hong Kong dollars or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, H Shares in foreign currency. Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any significant increase in the value of the Renminbi against foreign currencies could reduce the value of our foreign currency-denominated revenue and assets.

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Payment of dividends is subject to restrictions under PRC law.

Under the laws in the PRC, we may only pay dividends out of our distributable profits. Distributable profits refer to our after-tax profits as determined under PRC GAAP or IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory reserves, discretionary reserves and general risk reserves that we are required to make according to relevant rules. As a result, we may not have any or sufficient distributable profits to enable us to make distributions to our Shareholders, even if our financial statements may indicate that we are profitable.

Withholding tax may be imposed on payments on the H Shares.

The United States has enacted rules, commonly referred to as “FATCA”, that generally impose a new withholding regime with respect to “withholdable payments”, generally U.S. source payments of dividends and interest and, beginning in 2017, gross proceeds from the disposition of property that can produce U.S. source payments, and, in the future, may impose such withholding on “foreign passthru payments” made by a “foreign financial institution” (an “FFI”), unless such FFI complies with certain diligence and reporting requirements. Under current guidance, the term “foreign passthru payment” is not defined and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments on the H Shares made before January 1, 2017. The United States has entered into an intergovernmental agreement (an “IGA”) with Hong Kong (the “Hong Kong IGA”), and has agreed in substance with the PRC to an IGA (the “PRC IGA”), which potentially modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, we may be subject to the diligence and reporting obligations under FATCA or an applicable IGA. In order to avoid the withholding regime described above, we intend to comply with the diligence and reporting requirements under FATCA if required, which may affect how we structure our operations and the conduct our business. It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments. Prospective investors in the H Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA, the Hong Kong IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may materially and adversely affect our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus or H1N1 influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. In 2009, there were reports of the occurrence of H1N1 influenza in certain regions of the world, including the PRC and Hong Kong, where we operate business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis

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and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. In 2014, the outbreak of Ebola fever in West Africa received considerable worldwide media attention. Experts warn that China is at serious risk of Ebola because of the large numbers of travelers from Africa as well as poor hospital standards. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. On May 12, 2008, China experienced an earthquake with a reported magnitude of 8.0 on the Richter scale in Sichuan Province, resulting in the death of tens of thousands of people. Another earthquake and aftershocks struck Sichuan Province in April 2013. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC Government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, and the liquidity and market price of our H Shares may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The Offer Price range for our H Shares was the result of negotiations between us (on behalf of ourselves and the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for listing of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following the Global Offering. Furthermore, the market price and trading volume of our H Shares may be volatile. The following factors may affect the trading volume and market price of our H Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- news regarding recruitment or departure of key personnel by us or our competitors;
- significant information on competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;

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- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies and industries, and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of H Shares by us or other Shareholders.

Moreover, the securities market has from time to time experienced significant price and trading volume fluctuations that might be unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our H Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of unfavorable market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Future sales or perceived sales of a substantial number of our Shares in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future, and may result in dilution of your shareholding.

The market price of H Shares could decline as a result of future sales of a substantial number of H Shares or other securities relating to H Shares in the public market, or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales or perceived sales of a substantial number of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time, and at a price that is favorable, to us. In addition, our Shareholders would experience dilution in their shareholdings upon the offer or sale of additional share capital or share capital-linked securities by the Company in future offerings. If additional funds are raised through our issuance of new share capital or share capital-linked securities other than on a pro rata basis to existing Shareholders, the

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shareholdings of such Shareholders may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the H Shares.

Subject to the approval by the CSRC or the authorized securities approval authorities of the State Council and upon the Hong Kong Stock Exchange granting approval, holders of Domestic Shares may convert their Domestic Shares into H Shares and such Shares could be listed on the Hong Kong Stock Exchange. No class shareholder vote is required for the conversion of such Shares and the listing and trading of the converted Shares on an overseas stock exchange, including the Hong Kong Stock Exchange. Future sales, or perceived sales, of the converted Shares may materially and adversely affect the trading price of H Shares.

After completion of the Global Offering, all Shares held by our Promoters will be subject to legal restrictions on sale for a period of time. See “Share Capital — Our Shares” and “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering”. After the lapse of the above-mentioned restrictions or if they are waived or breached, future sales, or perceived sales, of substantial number of those Shares could materially and adversely impact the market price of H Shares and our ability to raise capital in the future.

Subject to the approval by the relevant regulatory authorities in China, holders of Domestic Shares may transfer their Domestic Shares to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall comply with the rules, regulations and requirements of such stock exchange. No class shareholder vote is required for the listing and trading of the transferred Shares on an overseas stock exchange. As a result, subject to receiving the requisite approval and upon the expiration of the lock-up period of the applicable contractual and/or legal restrictions on share transfers, holders of Domestic Shares may transfer their Domestic Shares to overseas investors, and such Shares may then be traded on the Hong Kong Stock Exchange as H Shares in accordance with the rules, regulations and requirements of the Hong Kong Stock Exchange. This could further increase the supply of H Shares in the market and could materially and adversely impact the market price of H Shares.

As the Offer Price of our H Shares is higher than our net tangible asset book value per share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon such purchases. Purchasers of H Shares may also experience further dilution in shareholdings if we issue additional Shares in the future.

As the Offer Price of our H Shares will be higher than the net tangible asset value per share in issue, which was issued to our existing Shareholders immediately prior to the Global Offering, purchasers of our H Shares in the Global Offering will experience an immediate dilution of the net tangible assets by HK\$0.92 per H Share (assuming an Offer Price of HK\$4.95 per H Share, being the mid-point of the stated Offer Price range, and

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assuming the Over-allotment Option for the Global Offering is not exercised). Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their Shares. In addition, holders of our H Shares may experience further dilution of their shareholdings if the Underwriters exercise the Over-allotment Option or if we issue additional Shares in the future.

The Hong Kong Stock Exchange may revoke the waivers it granted from compliance with certain requirements of the Hong Kong Listing Rules or impose certain conditions on such waivers, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Hong Kong Stock Exchange has granted us, a number of waivers from strict compliance with the Hong Kong Listing Rules. See “Waivers from Strict Compliance with the Listing Rules”. There is no assurance that the Hong Kong Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

Dividends declared in the past may not be indicative of our dividend payments in the future and there can be no assurance if and when we will pay dividends in the future.

In 2014, 2015 and 2016, we paid cash dividends of RMB701.1 million, RMB290.1 million and RMB395.6 million to our Shareholders, respectively. In 2017, we have declared dividends of RMB254.2 million to our Shareholders, among which RMB250.2 million was paid from July to September 2017 and the remaining RMB4.0 million has been not paid as of the Latest Practicable Date. According to resolution adopted by our Shareholders on May 4, 2016, our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders. We have not adopted any policy for future dividend payments. Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to shareholders’ approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operation, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under the PRC GAAP, the IFRSs, our Articles of Association, the PRC Company Law, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in the future. See “Financial Information — Dividend”.

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We have significant discretion as to the use of net proceeds from the Global Offering, and you may not necessarily agree with our use of such proceeds.

Our management may use the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We intend to use the net proceeds from the Global Offering to strengthen our capital base to support the expansion of our business. In particular, we expect to combine net proceeds from the Global Offering with our existing proprietary assets and allocate them into different asset classes in order to maintain and increase their value, create synergies with our trust business and maintain sufficient liquidity for our business operation. For details of our use of proceeds, see “Future Plans and Use of Proceeds”. You are entrusting your funds to our management, upon whose judgment you shall depend, for the specific use of the net proceeds from the Global Offering.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There had been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained and may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our H Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

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There can be no assurance of the accuracy or completeness of certain facts, forecasts and statistics derived from various official or independent third-party sources with respect to the PRC, Hong Kong and their economies and financial industries contained in this prospectus.

We have derived certain facts, forecasts and other statistics in this prospectus, relating to the PRC, the PRC economy and the industry in which we operate, including our market share information, from information provided by the PRC and other government authorities, industry associations, independent research institutes or other third-party sources, which are generally believed to be reliable. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Underwriters or any of our or their respective affiliates or advisors. As a result, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC, and may not be complete or up-to-date. Such facts, forecasts and statistics include those set out in the sections headed “Risk Factors”, “Industry Overview” and “Business”. Because of possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. As a result, you should not overly rely on such facts, forecasts or statistics.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules further provides that the requirement in Rule 8.12 may be waived by the Stock Exchange in its discretion.

Since substantially all of our Company's business operations and management are carried out in the PRC, there is no business need to appoint executive Directors based in Hong Kong. As none of our executive Directors or senior management currently resides in Hong Kong, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules. The two authorized representatives are Wan Zhong, our executive Director and Lai Siu Kuen, our joint company secretary. The authorized representatives will act as the principal channel of communication between the Stock Exchange and our Company. The authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of the authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange;
- (b) each of the authorized representatives has means to contact all Directors (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. We will implement a policy whereby:
 - (i) each Director will provide his or her mobile phone number, office phone number, residential phone number, email address and facsimile number to the authorized representatives;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (ii) each Director will provide his or her phone numbers or means of communication to the authorized representatives when he or she is travelling; and
- (iii) each Director will provide his or her mobile phone number, office phone number, email address and facsimile number to the Stock Exchange;
- (c) in compliance with Rule 3A.19 of the Listing Rules, we have retained Haitong International Capital Limited to act as our compliance advisor who will act as an additional channel of communication between the Stock Exchange and our Company for the period commencing on the Listing Date and ending on the date that our Company publishes our financial results for the first full financial year after the Listing Date pursuant to Rule 13.46 of the Listing Rules;
- (d) any meetings between the Stock Exchange and our Directors may be arranged through the authorized representatives within a reasonable time frame;
- (e) our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorized representatives and compliance advisor;
- (f) all Directors who are not Hong Kong residents have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and, when required, meet with the Stock Exchange upon reasonable notice; and
- (g) we will retain a Hong Kong legal advisor to advise us on the application of the Listing Rules and other applicable Hong Kong laws and regulations after our Listing.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who by virtue of his or her academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable.

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have appointed He Chuangye as one of the joint company secretaries. He Chuangye has extensive knowledge about our business operations and corporate culture and has extensive experience in matters concerning the Board and our corporate governance. However, He Chuangye does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Lai Siu Kuen, who meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary and to provide assistance to He Chuangye for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Lai Siu Kuen will work closely with He Chuangye to jointly discharge the duties and responsibilities as company secretary and assist He Chuangye to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, He Chuangye will attend relevant trainings to enhance and improve his knowledge of and familiarity with the Listing Rules and other relevant laws, rules and regulations.

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, on the condition that Lai Siu Kuen is engaged as a joint company secretary and provides assistance to He Chuangye during this period. If Lai Siu Kuen ceases to render assistance to He Chuangye during this period, the waiver will be immediately withdrawn. Upon expiry of the three-year period, we will conduct a further evaluation of the qualification and experience of He Chuangye to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. We and He Chuangye would then endeavor to demonstrate to the Stock Exchange's satisfaction that He Chuangye, having had the benefit of Lai Siu Kuen's assistance for three years, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules and there is no need to further apply for a waiver.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute partially-exempt or non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see "Connected Transactions".

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

ALLOCATION OF H SHARES TO CERTAIN CORNERSTONE INVESTORS WHO ARE CONNECTED WITH ONE OR MORE OF THE JOINT BOOKRUNNERS AND UNDERWRITERS

Paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules provides that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to “connected clients” of the lead broker or of any distributors.

Paragraph 13(7) of the Appendix 6 states that “connected client” in relation to an exchange participant means any client which is a member of the same group of companies as such exchange participant.

Connected Clients

1. *CMB AM*

CMB International Capital Limited (“CMBI”) is a subsidiary of China Merchants Bank Co., Ltd. (“CMB”). China Merchants Bank Co., Ltd. Asset Management (“CMB AM”) is a department of CMB. CMB AM will subscribe for H Shares through its managed fund. As a result, CMB AM is a connected client of CMBI.

CMBI has been appointed by the Company as one of the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Underwriters of the Global Offering.

2. *ICBC AM*

Each of ICBC International Capital Limited (“ICBCI Capital”) and ICBC International Securities Limited (“ICBCI Securities”) is a subsidiary of Industrial and Commercial Bank of China Limited. 中國工商銀行股份有限公司—理財計劃代理人(ICBC Asset Management Scheme Nominee) (“ICBC AM”) is the asset management arm of Industrial and Commercial Bank of China Limited. ICBC AM will subscribe for H Shares through certain qualified domestic institutional investor (“QDII Fund”). As a result, ICBC AM is a connected client of ICBCI Capital and ICBCI Securities.

ICBCI Capital has been appointed by the Company as one of the Joint Bookrunners of the Global Offering, while ICBCI Securities has been appointed by the Company as one of the Joint Lead Managers and Underwriters of the Global Offering.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Application and the Hong Kong Stock Exchange's consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules to permit each of CMB AM and ICBC AM to participate in the Global Offering as a cornerstone investor subject to the following conditions:

1. any H Shares to be allocated to each of CMB AM and ICBC AM will be held for, and on behalf of, independent third parties;
2. the respective cornerstone investment agreement entered with each of CMB AM and ICBC AM will not contain any material terms which are more favourable to each of CMB AM and ICBC AM than those in other cornerstone investment agreements;
3. as the case may be,
 - a. CMBI does not participate in the decision-making process or relevant discussion as to whether CMB AM will be selected as a cornerstone investor;
 - b. neither ICBCI Capital nor ICBCI Securities participates in the decision-making process or relevant discussion as to whether ICBC AM will be selected as a cornerstone investor;
4. other than the preferential treatment of assured entitlement under a cornerstone investment following the principles as set out in HKEX-GL51-13;
 - a. CMB AM, as a cornerstone investor, has not received, and will not receive preferential treatment by virtue of its relationship with CMBI;
 - b. ICBC AM, as a cornerstone investor, has not received, and will not receive, preferential treatment by virtue of its relationship with each of ICBCI Capital and ICBCI Securities;
5. each of the Joint Sponsors, the Company, the Joint Bookrunners, CMB AM, ICBC AM, ICBCI Securities and ABCI Capital Limited has provided the Hong Kong Stock Exchange a written confirmation in accordance with HKEX-GL85-16; and
6. details of the allocation will be disclosed in the prospectus and the allotment results announcement.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving our information to the public with regard to our Company. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

APPROVAL OF THE CSRC AND THE SHANDONG OFFICE OF CBRC

The CSRC and the Shandong Office of CBRC issued approval on January 24, 2017 and June 28, 2016, respectively for the application for the listing of our H Shares on the Stock Exchange and for the Global Offering, respectively. In granting such approval, neither the CSRC nor the Shandong Office of CBRC accepts any responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 64,708,000 Offer Shares and the International Offering of initially 582,367,000 Offer Shares (subject, in each case, to reallocation on the basis as set out in "Structure of the Global Offering").

The listing of our H Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company (on behalf of ourselves and the Selling Shareholders). The International Offering is managed by the Joint Representatives and is expected to be underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about Friday, December 1, 2017 subject to agreement on the Offer Price between our Company (on behalf of ourselves and the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed between the Company (on behalf of ourselves and the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Wednesday, December 6, 2017, or such later date or time as may be agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

(on behalf of ourselves and the Selling Shareholders), the Global Offering will not proceed. Further details of the Underwriters and the underwriting arrangements are set out in “Underwriting”.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering”, and the procedures for applying for our H Shares are set out in “How to Apply for the Hong Kong Offer Shares” and in the relevant Application Forms.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Representatives (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on or around Friday, December 1, 2017, and in any event no later than Wednesday, December 6, 2017.

If the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and us (on behalf of ourselves and the Selling Shareholders) are unable to reach an agreement on the Offer Price on or before Wednesday, December 6, 2017 or such later date or time as may be agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders), the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF H SHARES

Each person acquiring the H Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the H Shares to, confirm that he is aware of the restrictions on offers and sales of the H Shares described in this prospectus.

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, H Shares are not under public offering or sale, directly or indirectly, in China or the U.S.

SELLING SHAREHOLDERS

The Selling Shareholders are required to reduce their shareholding in the Global Offering pursuant to the relevant PRC regulations relating to the reduction of state-owned shares and the instruction from NSSF. For certain particulars of the Selling Shareholders, see “Statutory and General Information — D. Other Information — 8. Particulars of the Selling Shareholders” in Appendix VI.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including (i) any H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option; and (ii) the H Shares to be converted from Domestic Shares of the Selling Shareholders and to be offered for sale under the Global Offering pursuant to the relevant PRC regulation relating to the transfer/reduction of State-owned shares (including any additional H Shares which may be converted from Domestic Shares of the Selling Shareholders and to be offered for sale under the Global Offering upon the exercise of the Over-allotment Option). Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council. See “Share Capital — Conversion of Our Domestic Shares into H Shares” for further details.

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on December 8, 2017. Save as disclosed in this prospectus, no part of our Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (iii) agrees with us and each of our Shareholders that our H Shares are freely transferable by the H Shares holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. None of us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out in “Structure of the Global Offering”.

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our Company’s H Share register of members maintained in Hong Kong. We will maintain the Company’s principal register of members at our current registered office in China.

Dealings in the H Shares registered on the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of our Company in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.84832 to HK\$1.00, being the exchange rate set by PBOC on November 20, 2017 and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8116 to US\$1.00, being the exchange rate set forth in the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on November 17, 2017. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Wang Yingli (王映黎)	Building 26, Unit 1, Room 201 No. 20 Shanda South Road Licheng District, Jinan Shandong Province, PRC	PRC
Wan Zhong (萬眾)	Building 1, Unit 1, Room 301 No. 1-1 Jianshe Road Shizhong District, Jinan Shandong Province, PRC	PRC
Non-executive Directors		
Xiao Hua (肖華)	Room 301, No. 38, Lane 2168 Yanggao Central Road Pudong New Area Shanghai, PRC	PRC
Jin Tongshui (金同水)	Building 9, Unit 5, Room 402 Gongyuan Qianggen Street Lixia District, Jinan Shandong Province, PRC	PRC
Independent Non-executive Directors		
Yen Huai-chiang (顏懷江)	Building B1, Room 1206 Galaxy Century Caitian South Road Futian District, Shenzhen Guangdong Province, PRC	Taiwan
Ding Huiping (丁慧平)	Building Ta 7, Room 804 No. 3 Shangyuancun, Haidian District Beijing, PRC	PRC
Meng Rujing (孟茹靜)	Flat E, 12/F, Block 17 Mei Fai Court, South Horizons No. 17 South Horizon Drive Hong Kong	Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Supervisors		
Yang Gongmin (楊公民)	Building 4, Unit 1, Room 401 Gongyuan Qianggen Street Lixia District, Jinan Shandong Province, PRC	PRC
Wang Yuepu (王曰普)	Building 2, Unit 1, Room 502 No. 4086 Xinhua Road New and High-Tech Development Zone Weifang Shandong Province, PRC	PRC
Hou Zhenkai (侯振凱)	Building 1, Unit 3, Room 401 No. 23 Hongjialou South Road Licheng District, Jinan Shandong Province, PRC	PRC
Chen Yong (陳勇)	Building 401, 21/F, Room 23D Huizhongbeili Chaoyang District Beijing, PRC	PRC
Wu Chen (吳晨)	No. 146 Jinger Road Shizhong District, Jinan Shandong Province, PRC	PRC
Tian Zhiguo (田志國)	No. 4 Lishanding Street Lixia District, Jinan Shandong Province, PRC	PRC
Zuo Hui (左輝)	Building 12, Unit 1, Room 303 Hexiangcun Community Tianqiao District, Jinan Shandong Province, PRC	PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Li Aiping (李愛萍)	Building 42, Unit 5, Room 401 No. 30 Qinghou Community Third Schedule Lixia District, Jinan Shandong Province, PRC	PRC
Guan Wei (官偉)	Building 2, Unit 1, Room 403 Qipan Community, Third Schedule Lixia District, Jinan Shandong Province, PRC	PRC

For further information, see “Directors, Supervisors and Senior Management.”

PARTIES INVOLVED

Joint Sponsors

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

BOCOM International (Asia) Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

Haitong International Capital Limited

8/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Global Coordinators

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

CMB International Capital Limited

45th Floor, Champion Tower
3 Garden Road
Central, Hong Kong

Joint Bookrunners

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

CMB International Capital Limited

45th Floor, Champion Tower
3 Garden Road
Central, Hong Kong

ICBC International Capital Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

ABCI Capital Limited

10/F Agricultural Bank of China
50 Connaught Road
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers**CCB International Capital Limited**

12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

CMB International Capital Limited

45th Floor, Champion Tower
3 Garden Road
Central, Hong Kong

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

ABCI Securities Company Limited

10/F Agricultural Bank of China
50 Connaught Road
Central
Hong Kong

Reporting Accountant**PricewaterhouseCoopers**

Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisors to the Company

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower

3 Garden Road

Central

Hong Kong

As to PRC laws:

Fangda Partners

24/F, HKRI Centre Two, HKRI Taikoo Hui

288 Shi Men Yi Road

Shanghai, PRC

Legal Advisors to the Joint Sponsors and the Underwriters

As to Hong Kong and U.S. laws:

Clifford Chance

27/F, Jardine House

One Connaught Place

Central

Hong Kong

As to PRC laws:

Jia Yuan Law Offices

F408, Ocean Plaza

158 Fuxing Men Nei Street

Xicheng District

Beijing, PRC

Compliance Advisor

Haitong International Capital Limited

8/F, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

Receiving Banks

Wing Lung Bank Limited

16th Floor, Wing Lung Bank Building

45 Des Voeux Road Central

Hong Kong

**China Construction Bank (Asia) Corporation
Limited**

22/F, CCB Centre

18 Wang Chiu Road

Kowloon Bay, Hong Kong

CORPORATE INFORMATION

Registered office	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Head office in the PRC	No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC
Principal place of business in Hong Kong	36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Company's website	<u>www.sitic.com.cn</u> <i>(The information on the website does not form part of this prospectus)</i>
Joint company secretaries	HE Chuangye (賀創業) No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC LAI Siu Kuen (黎少娟) (FCIS, FCS) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized representatives	WAN Zhong (萬眾) Building 1, Unit 1, Room 301 No. 1-1 Jianshe Road Shizhong District, Jinan Shandong Province, PRC LAI Siu Kuen (黎少娟) (FCIS, FCS) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong

CORPORATE INFORMATION

Audit Committee	DING Huiping (丁慧平) (<i>Chairperson</i>) JIN Tongshui (金同水) MENG Rujing (孟茹靜)
Business Decision Committee	WANG Yingli (王映黎) (<i>Chairperson</i>) WAN Zhong (萬眾) JIN Tongshui (金同水)
Human Resources and Nomination Committee	WANG Yingli (王映黎) (<i>Chairperson</i>) DING Huiping (丁慧平) MENG Rujing (孟茹靜)
Remuneration Committee	MENG Rujing (孟茹靜) (<i>Chairperson</i>) WAN Zhong (萬眾) YEN Huai-chiang (顏懷江)
Strategies and Risk Management Committee	WANG Yingli (王映黎) (<i>Chairperson</i>) WAN Zhong (萬眾) XIAO Hua (肖華)
Trust Committee	YEN Huai-chiang (顏懷江) (<i>Chairperson</i>) DING Huiping (丁慧平) JIN Tongshui (金同水)
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Principal Bank	China Citic Bank Quancheng Road Branch No. 166 Jiefang Road, Lixia District Jinan, Shandong Province PRC

INDUSTRY OVERVIEW

This section and elsewhere in the prospectus contains information from the PRC and other government authorities, industry associations, independent research institutions or other third-party sources. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and any fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors or advisors or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness. Such information should not be unduly relied upon.

OVERVIEW OF THE ECONOMY IN CHINA

China has experienced rapid economic growth in the past three decades. China’s nominal GDP increased to approximately RMB74.4 trillion in 2016, being the second largest economy in the world. The PRC is now focusing on facilitating economic transformation to achieve high-quality growth, which consists of (i) shifting the focus of economic development from the pursuit of high GDP growth to optimizing economy structure, and (ii) transforming the economic development from an investment-driven model into an innovation-driven model. In financial sector, the Chinese government continues to promote various reforms to facilitate the development of the financial system.

The rapid economic development in China has resulted in significant growth in wealth accumulation and rapid increase in the numbers of HNWIs. According to the *2017 China Wealth Report* jointly published by The Boston Consulting Group and Industrial Bank Co., Ltd., the number of China’s high net wealth families with investable assets exceeding RMB6 million reached 2.12 million in 2016, up from 1.21 million in 2013. The Chinese private wealth market is expected to continually develop with significant growth potentials and strong demands for wealth management services.

OVERVIEW OF THE ECONOMY AND FINANCIAL INDUSTRY IN SHANDONG PROVINCE

Shandong has experienced rapid economic growth in recent years. It has consistently ranked within the top three among all the provinces in China in terms of nominal GDP over the past five years. From 2012 to 2016, Shandong’s nominal GDP increased from approximately RMB5.0 trillion to approximately RMB6.7 trillion, representing a CAGR of 7.6%. In 2016, Shandong’s nominal GDP contributed approximately 9.0% of the total nominal GDP of China.

INDUSTRY OVERVIEW

Financial industry has experienced rapid growth in Shandong. The added value of financial industry increased by 62.2% from RMB193.6 billion in 2012 to RMB314.0 billion in 2015, and accounted for 5% of the provincial GDP in 2015, as compared with 3.9% in 2012. The financial industry still has strong growth potentials in Shandong province, given that the proportion of added value of financial industry to the provincial GDP is significantly lower than national average, which currently stands at 8.5% of the total GDP. The Shandong provincial government attaches great importance to the development of financial industry. Pursuant to the *Several Opinions on Accelerating the Financial Reform and Development of Shandong Province* (山東省人民政府關於加快全省金融改革發展的若干意見) (the “Opinions”), the Shandong provincial government aims to increase the proportion of added value of financial industry to the provincial GDP by up to 5.5%, and further promote various social financing channels by utilizing diversified financial instruments, including trusts, financial leasing, asset securitization and mezzanine finance, by the end of 2017. The Opinions also indicated that, Shandong shall rely upon the existing economic advantages of Jinan and Qingdao. On the one hand, the government will develop Jinan as a financial center covering the middle and lower reaches of the yellow river and influencing its neighboring provinces. On the other hand, Shandong will also develop Qingdao as an emerging and leading domestic wealth management center facing the international market. In 2014, the establishment of the Qingdao Comprehensive Finance and Wealth Management Reform Pilot Area (青島市財富管理金融綜合改革試驗區) had been approved by the State Council, and this would assist in the growth of high-end financial services in Shandong, which mainly consists of wealth management services.

The rapid economic development in Shandong has resulted in the growth in the numbers of HNWI in this province. According to a report issued in 2017 by Hurun Report, in 2016, there were approximately 46,900 HNWI with personal assets exceeding RMB10 million in Shandong, which increased by 7.3% compared with 2015. Shandong’s large economic volume and rapid growth in the numbers of HNWI provided strong growth potentials and solid client base for the financial and asset management sectors.

HISTORY AND DEVELOPMENT OF THE TRUST INDUSTRY IN CHINA

In terms of assets under management, trust industry has become the second largest financial sector in China.

1979–2000, Initial Exploration

From 1979 to 2000, after several adjustments were made to the trust industry in China, the businesses conducted by trust companies were quite similar to the businesses conducted by banks. The trust business was very limited during this phase.

INDUSTRY OVERVIEW

2001–2006, Establishment of Regulatory Framework

The *PRC Trust Law* (中華人民共和國信託法) was promulgated in 2001, and the *Administrative Measures on Trust Investment Companies* (信託投資公司管理辦法) (was replaced by the *Administrative Measures of Trust Companies* (信託公司管理辦法) in 2007) and the *Interim Measures on Administration of Fund Trust of Trust Investment Companies* (信託投資公司資金信託管理暫行辦法) (was replaced by the *Administrative Measures on Collective Fund Trust Scheme of Trust Companies* (信託公司集合資金信託計劃管理辦法) in 2007) were each issued in 2002. These regulatory documents provided a legal basis for the operation and development of trust business.

2007–2014, Rapid Development

From 2007 to 2014, the trust industry embarked on the path of transformation and development with high speed and impressive performance.

In 2007, CBRC issued the *Administrative Measures of Trust Companies* (信託公司管理辦法) and the *Administrative Measures on Collective Fund Trust Scheme of Trust Companies* (信託公司集合資金信託計劃管理辦法). These regulatory documents are aimed at clarifying the function of trust companies and facilitating the trust companies to develop their business in a more health and effective manner. Meanwhile, from 2007 to 2008, China entered into a phase of relaxation of monetary policy, and as a result, the financing needs of the real economy expanded continually. The trust companies managed to seize such opportunity to achieve unprecedented development. At this stage, the trust industry has become an important channel of investment and financing and also an important component of China's financial system.

As trust companies are allowed to operate its business nationwide and the increased marketisation in trust industry, there are a number of competitive trust companies emerging and improving their capital base through introduction of strategic investors. The total trust assets of trust industry remained rapid growth in the phase. In 2012, the total trust assets of trust sector in China amounted for RMB7.47 trillion, surpassing the insurance industry, becoming the second largest financial sector in terms of total trust assets, behind the banking sector.

2015 to present, Further Specialization

As of December 31, 2016, the total trust assets of trust sector in China increased to RMB20.22 trillion. In 2015, in recognition of the increased systemic importance of the trust sector, CBRC established a dedicated department, the Trust Companies Supervision Department, to regulate the trust sector and formulate strategic plans for future development of the trust sector.

INSTITUTIONAL ADVANTAGES OF TRUSTS

Cross-Market Advantages

Trust companies are the only type of financial institutions that can operate across money markets, capital markets and real economy in China according to an article authored by the Director of Trust Supervision Department of CBRC and published on *China Finance* (中國金融) in 2015.

- **Real Economy**

Trust companies can provide various types of financings directly to enterprises in the real economy. They can utilize funds entrusted to them by their trustor clients as well as their proprietary funds to provide loans directly to enterprises across different industrial and service sectors. They can also utilize their entrusted funds to make equity investments and mezzanine investments in unlisted and listed companies.

- **Capital Markets**

In the capital markets, trust companies can utilize their entrusted funds and proprietary funds to invest in all types of publicly traded securities, including stocks traded on all major securities exchanges and OTC markets as well as corporate bonds and other debt instruments traded over major securities exchanges and the inter-bank bond market in China.

- **Money Markets**

As licensed financial institutions, trust companies can also use their entrusted funds and proprietary funds to make investments in the money markets to maintain the liquidity of their clients' assets and their proprietary assets while achieving relatively safe returns on such assets.

Flexibility of Trusts

Trust platform is able to connect the financing needs and investment needs of different clients flexibly. In terms of financing activities, trust products can be tailor-made to fulfill different financing needs of the enterprises through equity, debts and structured products. In terms of investment activities, trust products can be designed in different structures to invest across different markets to satisfy the different liquidity requirements, risk appetite and expectation for investment returns of clients.

INDUSTRY OVERVIEW

Independence of Trust Assets

The independence of trust assets mainly includes property isolation and risk isolation.

Property isolation means that the trustee has the authority to manage, utilize and depose of the entrusted assets, while unless otherwise provided in the trust contract, the trustors or the designated beneficiaries do not have the rights to manage or dispose of the entrusted assets since the ownership has been lawfully transferred to the trust even though the trust benefits will be distributed to the beneficiaries.

Risk isolation means that once the trustors lawfully transfer their assets to the trust companies as the trustee, such assets become trust assets, and the trust assets are separate from, and not part of, the assets of the trustors and trustees. As such, the trusts' ownership of the trust assets will not be affected by death, liquidation or dissolution of the trustors or trustees, and the trust assets are not subject to the claims of the creditors of the trustors or the trustees.

OVERVIEW OF THE TRUST INDUSTRY

Total trust assets of trust sector has experienced rapid growth and trust has become the second largest financial sector, behind the banking sector in China.

Trust companies are the only type of financial institutions that can operate across money markets, capital markets and real economy in China according to an article authored by the Director of Trust Supervision Department of CBRC and published on *China Finance* (中國金融). The trust industry connects the financing side and investment side and is an important component of China's financial system. The trust industry has therefore played an important role in diversifying financial market, supplementing the insufficiency of bank credits, expanding financial services and supporting the development of real economy. By utilizing its institutional advantages, the trust companies can integrate various financial instruments and provide tailor-made financing plans to enterprises. In satisfying the financing requirements of enterprises, the trust industry has also satisfied the investment needs of social capital seeking profitable investment opportunities.

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The total trust assets of trust sector has experienced rapid growth and the trust sector has become the second largest financial sector, second only to the banking sector. The table below compares the total asset amount and CAGR for trust sector and other financial institutions from 2012 to 2016:

	2012	2013	2014	2015	2016	2012–2016 CAGR
Total trust assets of the sector (RMB in billions)	7,471	10,907	13,980	16,304	20,219	28.3%
Total assets of other major financial institutions (RMB in billions)*	142,697	161,723	186,585	218,125	253,160	15.4%

Source: China Trustee Association (中國信託業協會), Securities Association of China (中國證券業協會), China Insurance Regulatory Commission (中華人民共和國保險監督管理委員會), China Banking Regulatory Commission (中國銀行業監督管理委員會)

* The total assets of other major financial institutions consist of the assets of banking institutions, insurance companies and securities firms.

The business structure of trust companies was further optimized.

Trusts could be divided into different categories based on different standards. The three main forms of trusts are individual fund trusts, collective fund trusts and property rights trusts.

- Individual fund trust. Individual fund trust more refers to a trust whereby one trustor entrusts funds to the trustee. Individual fund trusts generally are administrative management trusts.
- Collective fund trust. Collective fund trust refers to a trust whereby more than one trustor entrust their funds to the trustee. Collective fund trusts are generally actively managed trusts, whereby the trust companies are responsible for the planning, management and operation of the projects.
- Property rights trust. Property rights trust refers to a trust in which the entrusted assets are non-fund property and property rights. The trust companies, as the trustee, manage, utilize and dispose the entrust assets in accordance with the trust contracts.

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In recent years, trust companies are actively seeking transformation and restructure by enhancing their active management capability and optimizing their business structure. The percentage of individual fund trusts decreased from 68.3% in 2012 to 50.1% in 2016, while the percentage of collective fund trusts increased from 25.2% in 2012 to 36.3% in 2016 and the percentage of property trusts increased from 6.5% in 2012 to 13.7% in 2016. Trust companies are transforming themselves from extensive expansion to high-quality development and reducing dependence on external sources by conducting various active management, including but not limited to in the process of product introduction, project selection and investment decision-making. The table below sets forth the breakdown of the total trust assets of the sector of different kinds of trusts in absolute amount and as percentage of the total trust assets of the sector from 2012 to 2016:

	2012		2013		2014		2015		2016		2012-2016 CAGR
	Total trust assets	% of total	Total trust assets	% of total	Total trust assets	% of total	Total trust assets	% of total	Total trust assets	% of total	
(RMB in billions, except percentages)											
Collective fund trusts	1,882.7	25.20%	2,715.5	24.90%	4,292.1	30.70%	5,343.6	32.78%	7,335.3	36.28%	40.50%
Individual fund trusts	5,102.3	68.30%	7,593.0	69.62%	8,748.4	62.58%	9,351.1	57.36%	10,123.1	50.07%	18.68%
Property rights trusts	485.6	6.50%	598.6	5.49%	939.4	6.72%	1,608.9	9.87%	2,760.2	13.65%	54.41%

Source: China Trustee Association (中國信託業協會)

Improved risk management system and asset quality.

Trust companies are continuing to improve their risk management system and risk control measures. Trust companies are trying to manage and control risks from the origin of the trusts, for example by participating in project selection, product designing and due diligence. Trust companies also continuously monitor the quality of trust assets during the terms of the trusts by accessing the risk control indicators and identifying the risks on an ongoing basis.

Since 2014, trust companies have been relying more on market-oriented approaches to risk disposition and improved their risk management capabilities. Trust companies have disposed of their troubled trusts through market-oriented methods including mergers and acquisitions, restructuring, taking legal actions and various other methods. Trust companies have also improved their active management capacity and the risks of the whole sector is better monitored and controlled.

In accordance with CBRC's requirements, trust companies are required to report to CBRC trust schemes that are deemed to involve specific risk exposure in accordance with the CBRC guidance. As of December 31, 2016, the total trust assets of such trust schemes reported by all trust companies represented 0.58% of the total trust assets of all trust companies based on information published by the China Trustee Association.

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The Trust Industry Protection Fund was established in 2014, which marked the establishment of a stabilization mechanism for the trust industry that can effectively prevent systematic risks of the trust industry.

The rate of return on trust products is leading in the financial industry.

For a long time, the rate of return on trust products has maintained at a relatively high level. Trust companies adapt a flexible operational mechanism — “multiple approaches and cross-market allocation”, which are capable of guiding funding into areas where banks and other financing providers are not willing to invest in or unable to enter into, but the risks of investments in such areas are still controllable and the rate of return is relatively higher. While satisfying the financing needs of financing clients, trust companies also provide attractive high-return investment products, which can effectively meet the wealth management needs of HNWIs. The high return of trusts products has enhanced the competitiveness of trust companies and also demonstrated the excellent operational capacity of trust companies. For example, the annualized comprehensive rate of return on liquidated trusts was 7.4% in 2016, significantly higher than the rate of return of other financial products managed by banks during the same period. The following table sets forth the rate of return of trust products and the rate of return of banks’ wealth management products from 2013 to 2015 and the first half of 2016:

	Rate of return on trust products	Annualized rate of return on bank’s wealth management products		
	Annualized comprehensive rate of return on liquidated trusts	Close-ended wealth management products	Close-ended wealth management products at net value	Open-ended wealth management products
2013	7.04%	4.50%	4.57%	3.34%
2014	7.19%	5.06%	5.07%	3.89%
2015	9.89%	4.68%	4.97%	3.72%
2016 1st half	7.27%	3.96%	4.58%	3.32%

Source: China Trustee Association (中國信託業協會) and China Banking Wealth Management Registration System (全國銀行業理財信息登記系統)

Trust companies have generated substantial investment returns to beneficiaries of their trusts. Average trustee’s remuneration rate of the trust industry reached 0.73% in 2016. Nevertheless, the trust industry achieved growth in its profitability. From 2012 to 2016, the total profit of the trust industry has maintained a rapid growth, increasing from RMB44.1 billion in 2012 to RMB77.2 billion in 2016, at an annual CAGR of 15.03%. In 2016, all the 68 trust companies in China have achieved profitability. According to Wind Info, the rate of return on average equity of all trust companies reached 14.4% and the per capita net profit reached RMB3.4 million in 2016.

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The capital base of trust companies has steadily increased.

The proprietary assets of trust companies could be divided into three categories: (i) investment assets; (ii) loan assets, and (iii) monetary assets. From 2012 to 2016, the proprietary assets of trust companies have maintained a rapid growth, increasing to RMB557.0 billion from RMB228.2 billion, representing a CAGR of 25.0%. The increase in capital base has provided the trust companies a solid capital foundation to transform and optimize their business model. Investment assets are the main components of proprietary assets and its amount and proportion have increased rapidly, which reflects that the trust companies are seizing investment opportunities brought by the new characteristics of the economy to improve their active management capability and profitability.

The table below sets forth the breakdown of the assets amount of different kinds of proprietary assets from 2012 to 2016:

	2012	2013	2014	2015	2016	2012–2016 CAGR
	(RMB in billions)					
Proprietary assets	228.2	287.1	358.6	462.3	557.0	24.99%
<i>Investment assets</i>	130.1	169.8	238.9	326.5	413.7	33.54%
<i>Loan assets</i>	30.8	32.3	37.9	34.9	29.4	-1.15%
<i>Monetary assets</i>	47.4	52.8	52.7	72.6	68.5	9.64%

Source: China Trustee Association (中國信託業協會)

COMPETITIVE LANDSCAPE OF THE TRUST INDUSTRY IN CHINA

There were 68 trust companies in the PRC as of December 31, 2016. Trust companies are licensed by CBRC in accordance with the strict regulatory requirements and their operation in PRC are subject to review and inspection by relevant government authorities, mainly including CBRC. According to Wind Info, in 2016, in terms of total trust assets, the aggregate market share of top ten trust companies was 42.56%. Our company ranked 25th in terms of total trust assets and accounted for 1.29% of the aggregate amount of the whole industry. The following table sets out the total trust assets as of December 31, 2016 of top ten trust companies in terms of their total trust assets of the whole industry.

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As of December 31, 2016			
Rank	Name	Total trust assets (RMB in millions)	Market share %
1	CITIC Trust Co., Ltd.	1,424,889	7.03%
2	CCB Trust Co., Ltd.	1,306,196	6.45%
3	China Industrial International Trust Limited . .	944,621	4.66%
4	Shanghai International Trust Co., Ltd.	825,794	4.08%
5	China Resources SZITIC Trust Co., Ltd.	808,230	3.99%
6	Bank of Communications International Trust Co., Ltd.	713,961	3.52%
7	Huaneng Guicheng Trust Corporation Limited	709,390	3.50%
8	Zhongrong International Trust Co., Ltd.	682,967	3.37%
9	Ping An Trust Co., Ltd.	677,221	3.34%
10	Hwabao Trust Co., Ltd.	526,985	2.60%
	Total	8,620,255	42.56%

Source: Wind Info

According to the China Trustee Development Report 2014-2015 (中國信託業發展報告 (2014–2015)) published by the China Trustee Association in June 2015, there were 27 trust companies the controlling shareholders of which have local government background in the PRC. According to Wind Info, in 2016, in terms of the total trust assets, the aggregate market share of top ten trust companies the controlling shareholders of which have local government background accounted for 67.04% of the aggregate amount of these 27 companies. Our company ranked 6th in terms of total trust assets and accounted for 5.55% of the aggregate amount of the 27 trust companies the controlling shareholders of which have local government background. The following table sets out the total trust assets as of December 31, 2016 of top ten trust companies the controlling shareholders of which have local government background.

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As of December 31, 2016			
Rank	Name	Total trust assets (RMB in millions)	Market share %
1	Tibet Trust Corporation Limited	524,048	11.12%
2	Jiangsu International Trust Corporation Limited	467,721	9.93%
3	Chang'an International Trust Co., Ltd.	368,127	7.81%
4	Bohai International Trust Co., Ltd.	346,377	7.35%
5	Northern International Trust Co., Ltd.	264,373	5.61%
6	Shandong International Trust Co., Ltd.	261,573	5.55%
7	Beijing International Trust Co., Ltd.	258,621	5.49%
8	Shaanxi International Trust Co., Ltd.	253,811	5.39%
9	Lujiazui International Trust Corporation Limited	216,378	4.59%
10	Guangdong Finance Trust Co., Ltd.	197,295	4.19%
	Total	3,158,324	67.04%

Source: Wind Info

Among all trust companies in China, only two are currently listed on PRC stock exchanges, namely Anxin Trust Co., Ltd. and Shaanxi International Trust Co., Ltd, which ranked 32nd and 29th respectively in terms of total trust assets and ranked 4th and 43rd respectively in terms of revenue among all trust companies in China in 2016.

Trust companies also face competition from various other financial institutions. For financing trust business, trust companies compete with other financial institutions that may offer financings to similar types of clients, such as commercial banks and investment banks. For investment trust business, trust companies also compete with securities investment fund management companies, securities companies, private equity investment companies and private banks and other institutions qualified to conduct asset management and wealth management business. According to the industry report published by Asset Management Association of China (中國證券投資基金業協會), as of December 31, 2016, the AUM of asset management products managed by securities companies amounted to RMB17,311.1 billion; the AUM of special account fund management products managed by securities investment fund management companies amounted to RMB5,104.3 billion; and the AUM of special account fund management products managed by fund management subsidiaries of other financial institutions amounted to RMB10,503.1 billion.

Some of other financial institutions in other financial sectors, such as securities companies and securities investment fund management companies which are regulated by CSRC, have historically not been subject to similar net capital requirements as trust

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companies do with respect to their asset management business, which may provide them with certain competitive advantages. CSRC amended the Administrative Measures on Risk Control Indicators for Securities Companies (證券公司風險控制指標管理辦法) in June 2016 and adopted the Interim Provisions on Administration of Risk Control Indicators for Specific Client Asset Management Subsidiaries of Fund Management Companies (基金管理公司特定客戶資產管理子公司風險控制指標管理暫行規定) in December 2016, which enhanced capital requirements on securities companies and securities investment fund management companies with respect to their asset management business and may impact the competitive landscape between trust companies and other financial institutions.

DEVELOPMENT TRENDS OF THE TRUST INDUSTRY IN CHINA

Improved Regulation Underpinning the Innovation and Transformation of Trust Sector

The regulatory authorities are committed to strengthening the risk management system of trust companies in a view towards improving the development and transformation of trust industry. The regulatory authorities encourage trust companies to explore new business areas, operate their business in a differentiated and innovative model, and achieve continuous development with its own characteristics under controllable risks. For example, in terms of corporate governance, the regulatory authorities are guiding and supporting trust companies to diversify their ownership structure and improve their incentive mechanisms.

CBRC promulgated the Opinions on Further Strengthening the Risk Supervision of Trust Companies (關於進一步加強信託公司風險監管工作的意見) in 2016 and expressed again on different occasions their determination to strengthen risk supervision of the trust industry in 2017. The regulatory authorities encourage trust companies to actively reduce their trust business that serves merely as channels, shorten the links between fund suppliers and users, and deleverage their business so as to ensure that the comprehensive risk of the trust industry is under control. The regulatory authorities also encourage trust companies to maintain their fundamental role as a provider of trustee services, enhance their research and innovation efforts with respect to their actively managed trust business, and provide more targeted and high value added financial services to the real economy.

Further Develop Financing Capability to Better Serve the Real Economy

Trust companies are trying to improve their active management capabilities, R&D capabilities and innovation capability to satisfy the raising demands brought by the real economy. By standardizing its business operation, trusts companies are consolidating their existing business as well as accelerating business transformation so as to fulfill the financing demands of the whole society.

Expand Wealth Management Business to Satisfy the Increased Wealth Management Needs of HNWIs

The nature of trust business is to utilize the various institutional advantages of trust arrangement to manage entrusted assets and provide wealth management services. The accumulation of disposable income in China has increased the awareness and needs of

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wealth management services from institutional and individual investors. By utilizing the institutional advantages, trust companies are proactively developing tailor-made trust products to satisfy the wealth management needs of different kinds of clients. The trust companies are improving their active management capability so as to strengthen their core competitiveness and expand their coverage of HNWIs.

Enhance Capital Base and Improve Proprietary Business

Trust companies are further enhancing their capital base and steadily improving the business scope of proprietary business. Through strengthening the synergies between the trust business and proprietary business, the proprietary business has provided a solid support to the development of trust business. As the capital base of trust companies enhanced, they are able to expand their proprietary business and improve their risk tolerance, and as a result enhance its comprehensive competitiveness in the financial industry.

Improve Innovation Capability and Expand into New Business Areas

Benefiting from the on-going and innovative financial reform, the wealth management demands of investors have become diversified. Trust companies are developing innovative and differentiated financial services by utilizing their institutional advantages. Trust companies have also entered into new business. For example, against the background of economic “new normal”, trust companies expand their business into disposition of non-performing asset and asset securitization areas. With the rapid development of the new Internet-based economy, trust companies are expected to enhance their trust business relating to consumer finance and the Internet.

Expand into International Markets

Trust companies commence proactively expanding their business into overseas markets and view their international business as an important component of their business transformation and further development. Currently, some trust companies have established overseas subsidiaries and applied several financial balances qualifications. The accelerated implementation of “The Belt and Road Initiative” policy also brings new opportunities for trust companies to take initiatives to explore international investment banking business. “The Belt and Road Initiative” policy is expected to generate a large amount of infrastructure financing and investment needs and stimulate the interests of Chinese institutional and individual investors to allocate some of their assets to overseas markets. On the other hand, the policy will generate increasing demand for trade finance. Taking advantage of favorable policies, the trust companies are carrying out diversified business, strengthening multilateral cooperation with different parties so as to meet the market demands, and further advance the development of the whole industry and stimulate the pace of internationalization.

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THE PRC REGULATORY ENVIRONMENT

Overview

The Company mainly conducts business in the PRC and all of our business operations therein are subject to the applicable PRC laws, administrative regulations, departmental regulations and other regulatory documents which mainly aim to safeguard the interests of trust companies, their customers as well as shareholders and other parties. Set forth below is the summary of principal laws and regulations applicable to the trust industry which we currently operate in, rather than a detailed description of all the laws and regulations which our business is required to comply with. In recent years, in tandem with the reform in trust and financial sectors, the laws and regulations on the trust and financial industries have been undergoing constant changes. Changes in the applicable laws and regulations or regulatory policies from time to time may have a significant impact on the industry we operate in.

Principal Regulatory Authorities and Relevant Organizations

CBRC

The CBRC is the regulatory authority of the banking sector directly under the State Council. Pursuant to the provisions under the *Administrative Measures of Trust Companies* (信託公司管理辦法) promulgated by the CBRC with effect from March 1, 2007, the China Banking Regulatory Commission supervises trust companies and its business activities. The Trust Companies Supervision Department under the CBRC is principally positioned to regulate financial institutions in the trust industry.

Pursuant to the *Banking Supervision Law of the People's Republic of China* (President Order No. 58) (中華人民共和國銀行業監督管理法 (主席令第58號)), with effect from February 1, 2004, amended by the Standing Committee of the National People's Congress and promulgated on October 31, 2006, the major responsibilities of the CBRC include the following:

- to formulate and issue regulations and rules on the supervision of banking institutions and their business activities;
- to review and approve the establishment, change, termination and business scope of banking institutions;
- to regulate the eligibility of directors and senior management of banking institutions;

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- to comply with the rules of prudent operations for banking institutions formulated by the law and administrative regulations on areas such as risk management, internal control, capital adequacy ratio, asset quality, loss reserves, risk concentration, connected transactions and asset liquidity;
- to conduct on-site inspection and impose off-site regulation over the business activities and risk exposure of banking institutions;
- to compile and publish statistics and reports on the PRC banking institutions.

Pursuant to the *Notice of the General Office of the China Banking Regulatory Commission on Matters Regarding the Facilitation of the Simplification of Administrative Procedures and Delegation of Authority for the Improvement of Efforts on Market Access* (中國銀行業監督管理委員會辦公廳關於推進簡政放權改進市場准入工作有關事項的通知) promulgated by the CBRC with effect from June 16, 2014, the CRBC was no longer involved in the approval process on several matters regarding the financial institutions under its scrutiny. Instead, it conducts report-based management for such matters. In particular, matters relating to trust companies include:

- approval for the extension of the preparatory period for establishment and postponement of business commencement;
- approval for downgrading to probationary status and suspension of business operations;
- approval for amendments to the Articles of Association arising from matters for prerequisite approval such as the change of the company name, equity interests, registered capital and business scope;
- approval for the change of the form of organization.

Local Offices of the CBRC

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) promulgated and implemented by the CBRC on June 5, 2015, the CBRC has delegated the authority for the approval of several matters with respect to trust companies to local offices of the CBRC. In particular, applications regarding such matters shall be accepted, reviewed and determined by the CRBC branches and the local offices of the CRBC where such trust companies are located. The matters in question include:

- the business commencement of trust companies;
- applications from trust companies for the establishment by way of investment of, equity participation in and acquisition of overseas institutions;

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- applications from trust companies for the change of the company name, address, registered capital and amendments to the Articles of Association;
- applications from trust companies for the verification of the eligibility of directors and senior management;
- the public offering of shares as well as the listing of and trading in shares by trust companies;
- applications from trust companies for the qualifications as a trustee for trusts designated for certain purposes;
- applications from trust companies for the qualifications for conducting the corporate annuity fund management business;
- applications from trust companies for the qualifications for conducting the business of trading in derivatives including stock index futures;
- applications from trust companies for the qualifications of conducting the entrusted overseas wealth management business;
- other new businesses conducted by trust companies;
- applications from trust companies for the issuance of financial institutions bonds, second-tier bonds as well as debt instruments and capital replenishment instruments as required by the law to be approved by the CBRC.

Saved as the above-mentioned matters in relation to delegation of approval authority to each of local offices of the CBRC, certain matters are also subject to the acceptance and preliminary review by local offices of the CBRC and review and decision by the CBRC. Such matters include:

- establishment of a trust company;
- change of equity interests or adjustment to shareholding structure of a trust company arising from the change of de-facto controller;
- application for segregation, merger, dissolution and liquidation by a trust company.

In addition, the *Notice of the General Office of the China Banking Regulatory Commission on Matters Regarding the Facilitation of the Simplification of Administrative Procedures and Delegation of Authority for the Improvement of Efforts on Market Access* (中國銀行業監督管理委員會辦公廳關於推進簡政放權改進市場准入工作有關事項的通知) also stipulated that under the principle of reciprocity of regulatory power and responsibilities, the CBRC will reasonably

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assign its approval power and delegate its approval and management authority. Each of local offices of the CBRC can further deepen the simplification of administrative procedures and delegation of authority within the scope of the authorization of the CBRC to further delegate their regulatory approval authorities to branches of the CBRC.

Pursuant to the *Notice on Effectively Remediating Regulatory Deficiencies and Improving Regulation Efficiency* (中國銀監會關於切實彌補監管短板提升監管效能的通知), the CBRC requests its local offices and banking financial institutions to carry out following work to remedy regulatory deficiencies and improving regulation efficiency, including stepping up regulatory system establishment, strengthening risk prevention at source, tightening off-site and on-site supervision and regulation, tightening information disclosure supervision and regulation, toughening regulatory penalties and strengthening accountability investigation. A series of specific regulatory requirements were introduced targeting key issues, weaknesses and major risks confronting regulation departments and banking financial institutions, with the aim of enhancing the quality and efficiency of regulation efforts, and ensuring effective compliance management among banking financial institutions.

Other Regulatory Authorities and Self-Regulatory Organization

Apart from the above authorities, trust companies are also subject to the supervision and regulation of the other regulatory authorities such as SASAC, MOFCOM, PBOC, SAFE, the National Audit Office, the State Administration of Taxation, and self-regulatory Organization, China Trustee Association.

Industry Access

Establishment of Trust Companies

The business scope of trust companies are required in the laws and regulations including the *Administrative Measures of Trust Companies* (信託公司管理辦法) and *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) and the standards for industry access and other requirements are determined. The establishment of a trust company is subject to the approval of the CBRC and the approval for operation. Conditions required to be satisfied for the proposed establishment of a trust company include:

- its articles of association shall be in compliance with the provisions of the *PRC Company Law* (中國公司法) and the requirements of the CBRC;
- its investors, including domestic non-financial enterprises, domestic financial institutions, foreign financial institutions and other investors as agreed by the CBRC, shall satisfy the applicable requirements;

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- its minimum registered capital shall be RMB300 million or equivalent in a freely convertible currency fully paid up one-time in cash. For those engaging in trust business without fulfilling the obligations as an investment manager, their minimum registered capital shall be RMB100 million or equivalent in a freely convertible currency;
- it shall have directors and senior management members satisfying the appointment qualification and other competent staff engaging in trust businesses;
- it shall have sound organization structure, management system and risk control mechanism;
- it shall have premise for operation, safety precautionary measures and other facilities in relation to its business;
- it shall establish information technology structure in relation to its business operation and regulatory requirements, safe information system in compliance with laws and regulations which is necessary to its operation and technology and measures which ensure the continuity of its operation;
- other prudent conditions as stipulated by the CBRC.

Pursuant to the *Measures for the Administration of Financial Licenses* (CBRC Order [2007] No. 8) (金融許可證管理辦法 (中國銀監會令2007年第8號)) as effective from July 1, 2003 and promulgated on July 3, 2007 after modification by the CBRC, a financial license is a legal document issued by the CBRC according to law to permit financial institutions to engage in financial business, and shall apply to financial institutions that are subject to the regulation by the CBRC and have been approved to engage in financial business. The CBRC and local offices of the CBRC are responsible for the issuance and supervision of financial license of trust companies.

Establishment of Branches and Subsidiaries of a Trust Company

Pursuant to the *Administrative Measures of Trust Companies* (信託公司管理辦法), trust companies shall not establish or in a different form establish branches without CBRC's approval.

Pursuant to the *Guiding Opinions of the General Office of the CBRC in Relation to the Risk Control of Trust Companies* (Yin Jian Ban Fa [2014] No. 99) (中國銀監會辦公廳關於信託公司風險監管的指導意見 (銀監辦發[2014]99號文)) published by the CBRC on April 8, 2014, the CBRC agreed with the establishment of directly invested professional subsidiaries of trust companies which were in compliance with the requirements.

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Business Scope

Pursuant to the *Administrative Measures of Trust Companies* (信託公司管理辦法), trust companies may apply to engage in part or all of the following business activities in RMB or foreign currencies:

- fund trusts;
- trusts of movable property;
- real estate trusts;
- trusts of marketable securities;
- trusts of other properties or property rights;
- acting as the promoter of an investment fund or a fund management company and engaging in fund investment business;
- enterprise asset restructuring, mergers and acquisitions, project financing, corporate finance, financial consulting and others;
- entrusted securities underwriting business as approved by relevant departments of the State Council;
- mediation, advising, credit investigation business and others;
- bailment and safe deposit locker facility business;
- other business stipulated by laws and regulations or approved by the CBRC.

In addition, the operations of trust companies may also include deposits at banks and other financial institutions, lending to banks and other financial institutions, loan, leasing, investment and other businesses. The investment business activities shall be restricted to equity investments in financial enterprises, investments in financial products and investments in fixed assets for own use. Trust companies shall not use their own assets for industrial investment unless as otherwise provided under the regulations of the CBRC. Trust companies shall not engage in debt business other than lending to banks and other financial institutions, and the balance of interbank borrowing shall not exceed 20% of their respective net assets unless as otherwise provided under the regulations of the CBRC. Trust companies may provide guarantee to third parties, provided that the balance of guarantee to third parties shall not be more than 50% of their net assets.

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Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission (中國銀監會信託公司行政許可事項實施辦法) stipulated the qualification for application for management business of enterprise annuity fund by a trust company, the qualification for entity trustee of special purpose trust, the qualification for the entrusted overseas wealth management business, the qualification for the stock-index futures trading business, the issuance of financial bonds, subordinated bonds and the approval of debt instruments and capital replenishment tools from the CBRC as legally required, the conditions for the application of operating other new business and its approval procedures.

The adjustment of business scope and the increase of business types of a trust company are subject to administrative approval from the CBRC and its local branches.

Corporate Governance

Pursuant to the relevant requirements of the *Administrative Measures of Trust Companies* (信託公司管理辦法), a trust company shall establish an organizational structure with the shareholders' meetings, the board of directors, the board of supervisors and the senior management as core structure, specify the division of their respective duties to guarantee the independent operation of different bodies and possess effective check and balance as well as a scientific and efficient mechanism for decision-making, incentives and restrictions.

Pursuant to the *Guidelines for Governance of Trust Companies* (信託公司治理指引), the governance of trust companies shall be in compliance with the principles below:

- (1) carefully fulfill the fiduciary duties with dedication under the principles of good faith, credibility, cautiousness and effective management to deal with trust affairs for the maximum interests of the beneficiaries;
- (2) specify duties, rights and obligations of shareholders, directors, supervisors and the senior management and optimize the rules of procedures and procedures for decision-making of the shareholders' meetings, the board of directors, the board of supervisors and the senior management;
- (3) establish complete internal control system, risk management system and information disclosure system, as well as reasonable performance appraisal and remuneration system;
- (4) follow the principle of building the concepts of risk management, formulate the effective risk management policies and detailed risk management system, establish a comprehensive procedures for risk management so as to identify, measure, monitor and control various types of risks;

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- (5) actively encourage and introduce qualified strategic investors, excellent management team and professional management talents to optimize governance structure.

In addition, the *Guidelines for Governance of Trust Companies* (信託公司治理指引) also stipulated that the number of independent directors of trust companies shall not be less than one-fourth of the board of directors; for a trust company in which individual shareholder and his/her connected parties holding more than two-thirds of the company' total share capital, its number of the independent directors shall not be less than one-third of the board of directors. The general manager and the chairperson of the board of directors of the company shall not be the same person.

Pursuant to the *Implementation Measures of the CBRC for Matters on Administrative Permissions for Trust Companies* (中國銀監會信託公司行政許可事項實施辦法), the chairperson of the board of directors, vice chairperson of the board of directors, independent directors, other members of the board of directors and secretary to the board of directors of the trust companies shall obtain relevant qualifications. In addition, the general manager (chief executive officer, president), vice general manager (vice president), risk controller (chief risk officer), financial controller (chief financial officer), chief accountant, chief auditor (auditor general), operation controller (chief operating officer), information director (chief information officer), assistant to general manager (assistant to president) and other senior management shall obtain relevant qualifications. Other staff who do not assume above duties but actually fulfill the duties of the above-mentioned directors and senior management shall obtain relevant qualifications.

Internal Control

Pursuant to the relevant requirements of the *Administrative Measures of Trust Companies* (信託公司管理辦法), a trust company shall establish the corresponding posts based on the principle of segregation of duties to ensure the risk prevention, control, monitoring and rectification of the company and form a sound internal restriction mechanism and a supervision mechanism. A trust company shall formulate the rules of its trust business and other business pursuant to the regulations to establish and optimize its management system and internal control system of various businesses and report to and file with the CBRC. A trust company shall establish and optimize its financial and accounting system pursuant to the relevant regulations of the PRC to faithfully record and comprehensively reflect its business activities and financial condition. Pursuant to the *Notice of the China Banking Regulatory Commission on Issues Concerning Further Strengthening the Internal Control and Management of Trust and Investment Companies* (中國銀行業監督管理委員會關於進一步加強信託投資公司內部控制管理有關問題的通知), the proprietary business and trust business of a trust company shall be segregated. The proprietary business department and trust business department shall be established separately. No personnel are allowed to hold concurrent positions from both departments. They shall be managed by different senior management. The accounts of proprietary business and trust business shall be presented and audited separately. Such accounts

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shall be managed by different financial personnel. No such personnel are allowed to hold concurrent positions mutually. A trust company shall establish information segregation system, under which information of the proprietary business shall be segregated from the information of the trust business. The business personnel shall keep confidential to the undisclosed business information that they are informed during their works. They are not allowed to mutually transfer or exchange undisclosed business information. A trust company shall establish authorization system for the proprietary business and trust business separately and specify the objectives, duties and authorization of all departments to ensure that all departments and their personnel of the proprietary business and trust business fulfill their corresponding duties within the scope of authorization. A trust company shall formulate business procedures, operating rules and procedures and risk control system to ensure the relative independence of front, middle and back offices of all businesses. A trust company shall establish corresponding posts based on the principle of segregation of duties to ensure the risk prevention, control, monitoring and rectification of the company and form a sound internal restriction mechanism and a response and supervision mechanism for middle, back and front offices.

Pursuant to the *Guidelines for Governance of Trust Companies* (信託公司治理指引), a trust company shall establish an effective segregation mechanism between the trust business and other business of the company. The internal audit department of a trust company shall submit to the company's board of directors an internal audit report at least once for half year. Copies of the above-mentioned report shall also be submitted to the CBRC or its local branches.

Risk Control

Pursuant to the *Guiding Opinions of the General Office of the CBRC in Relation to the Risk Control of Trust Companies* (中國銀監會辦公廳關於信託公司風險監管的指導意見), the CBRC conformed to the principles of both preventing and solving risks and promoting transformation and development, comprehensively evaluate the risks, actively formulate a response plan and comprehensively used various means in the markets and laws to duly solve risks and protect the stability of the financial condition. It specified the functional positioning of “managing assets as entrusted”, cultivated the trust culture of “assuming respective responsibilities by buyer and seller”, promoted the business transformation and development of trust companies and focus was placed on the principal business. For the risk prevention and control of trust companies, trust companies shall duly dispose of project risks, shareholders of trust companies shall undertake or agree in the articles of association of the companies that they will provide liquidity support when trust companies face liquidity risks. They shall practically strengthen potential risk control and gradually realize the maintaining of marketing records by way of audio or video recording. If unlawful promotion is found, the regulatory department shall suspend the relevant business and the senior management shall be accountable for the issue stringently. A long-term mechanism for risk prevention and control and a stability fund for the trust industry shall be established. The Opinions also require trust companies to report to CBRC or its local office trust schemes that are deemed to involve specific risk exposure in accordance with

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guidance issued by CBRC from time to time. We are required to submit such reports to Shandong Office of CBRC on a monthly basis. In August 2016, we reported to the Shandong Office of CBRC that we had 40 of such trust schemes in existence, including 29 individual fund trusts and 11 collective fund trusts.

The *Opinions on Further Strengthening Risk Control of Trust Companies* (進一步加強信託公司風險監管工作的意見) issued by the CBRC specified the policies and measures of strengthening the risk control in terms of asset quality management, risk control for key areas, substantially solving risk related to trust projects, clearing of capital pool, control of leverage ratio for structured margin financing and joint strengthening of supervision.

Pursuant to the *Guiding Opinions of the China Banking Regulatory Commission on Risk Prevention and Control of the Banking Industry* (中國銀監會關於銀行業風險防控工作的指導意見), the CBRC requests the banking financial institutions hold firmly onto the bottom line of not triggering systemic risks and effectively prevent and resolve acute risks such as, credit risks, liquidity risks, risks relating to bond investment business, risks relating to interbank business, risks relating to the wealth management and agency sales business, risks in the real estate sector, risks of local government debts and risks relating to Internet finance.

The CBRC also further strengthened the risk prevention and management for trust companies through implementing trust compensation reserve fund system, trust net capital management system and protection fund system of trust industry.

Significant Change

Pursuant to the relevant requirements of the *Administrative Measures of Trust Companies* (信託公司管理辦法) and *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法), the significant change of trust companies below shall be subject to the approval from the CBRC or local offices of the CBRC: change of name; change of registered capital; change of company's residential address; adjustment to business scope; change of shareholders' structure or adjustment to shareholders' structure (except for shareholding of tradable shares of a listed company not reaching 5% of the total shares of that company); amendments to the articles of association (amendments to the articles of association arising from initial approval matters such as change of name, shareholding, registered capital, business scope are no longer subject to the approval and are changed to management by report system); mergers or division; and other situation as required by the CBRC.

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Restrictions on Foreign Equity Ownership

The *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) stipulated that as one of the conditions for establishment of a trust company, a trust company shall have qualified contributor(s) including other contributor(s) recognized by domestic non-financial institution, domestic financial institution, overseas financial institution and other distributor(s) recognized by the CBRC, and stipulated the circumstances where one is not allowed to serve as contributor(s) of a trust company. The *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) also stipulated that when a trust company changes its shareholding or adjusts its structure, the proposed contributor(s) should still possess(es) the above-mentioned corresponding conditions.

Restrictions on Holding Tradable Shares of a Listed Trust Company

The *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) stipulated that the qualifications of all contributors proposed to invest in trust companies and the change of shareholding or adjustment to shareholding structure of trust companies shall be subject to the approval, except for those who individually or jointly hold tradable shares of a listed trust company with connected parties not reaching 5% of the total shares of that company.

Therefore, the restrictions on contributors of trust companies stipulated in the *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法) are mainly imposed on the establishment of trust companies, adjustment to the shareholding structure of unlisted trust companies, and the change of shareholders holding 5% or more of the tradable shares of the listed trust companies, etc. For the contributors who individually or jointly hold tradable shares of a listed trust company with connected parties not reaching 5% of the total shares of that company, they are not subject to above-mentioned restrictions on contributors of trust companies as no approval is required.

Restrictions on the Pledge of the Shares

Pursuant to the Guidelines for Governance of Trust Companies (信託公司治理指引), the shareholders of a trust company shall commit not to pledge the shares of a trust company.

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According to our Articles of Association approved by the Shandong Office of CBRC, our Shareholders whose qualification to be approved by the CBRC or its local office (the shareholders hold our domestic shares and the shareholder of our H shares holding 5% or more of our total shares) shall comply with relevant restrictive requirements of the CBRC in relation to pledge of shares.

Our Shareholders shall follow the guidelines above and our Articles of Association if they pledge our Shares and there is a possibility that the regulatory authorities might impose more stringent requirements in the future. Please see “Risk Factors — Risks Relating to Our Business and Industry — Investments in our Shares are subject to a number of restrictions, which may adversely affect your investment value.”

Relevant Requirements Regarding Institutional Supervision of Trust Companies

Trust Compensation Reserve Fund System

Pursuant to the *Administrative Measures of Trust Companies* (信託公司管理辦法), trust companies shall allocate 5% of their after-tax profit to the trust compensation reserve fund annually, until the total amount accumulated thereunder reaches 20% of the company's registered capital. The trust compensation reserve fund of a trust company shall be deposited at a domestic commercial bank with good standing and scale, or used for the purchase of low-risk, high-liquidity securities such as treasury bonds.

Trust Net Capital Management System

Pursuant to the *Administrative Measures of Net Capital of Trust Companies* (CBRC Order [2010] No. 5) (信託公司淨資本管理辦法(中國銀監會令2010年第5號)) promulgated by the CBRC and effective from August 24, 2010, the net capital of a trust company shall be subject to the supervision by the CBRC and calculated in accordance with the following formula: net capital = net assets – risk deduction of various assets – risk deduction of contingent liabilities – other risk deduction determined by the CBRC. The net capital of a trust company shall not be less than RMB200 million. A trust company shall always comply with the following risk control indices: (1) its net capital shall not be less than 100% of the sum of all risk-based capital; (2) its net capital shall not be less than 40% of the net assets.

Pursuant to the *Notice of China Banking Regulatory Commission on the Publication of Matters of Standard Calculation of Net Capital of Trust Companies* (中國銀行業監督管理委員會關於印發信託公司淨資本計算標準有關事項的通知) promulgated by the CBRC and effective from January 27, 2011, the CBRC implemented different standards for risk-based capital measurement to trust companies with different regulatory ratings. The notice also specified that the basis of calculating risk-based capital of special trust businesses including trust products of financing and investment business, trust products of TOT, bank-trust partnership business and trust business with beneficiaries more than 2 persons (inclusive) arising from the transfer of beneficiary right, as well as individual trust business in which its capital came from non-connected parties but was used by connected parties.

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Trust Industry Protection Fund

Pursuant to the *Notice of the CBRC and MOF in Relation to the Issue of the Administrative Measures of the Protection Fund of Trust Industry* (Yin Jian Fa [2014] No. 50) (中國銀監會、財政部關於印發〈信託業保障基金管理辦法〉的通知(銀監發[2014]50號)) promulgated by the CBRC and the MOF and effective from December 10, 2014, in order to regulate the fundraising, management and use of Trust Industry Protection Fund (“Protection Fund”) (信託業保障基金), a market-oriented risk mitigation system shall be established to protect the legitimate interests of the trustees, effectively prevent the risk of the trust industry and facilitate the sound development of the trust industry. Organizations including the trust companies and the China Trustee Association shall jointly contribute capitals and establish China Trust Protection Fund Co., Ltd. (“Protection Fund Company”) to protect the fundraising, management and use of the Protection Fund in accordance with the laws.

Each of the trust companies in China is required to subscribe for units of the fund in an amount equal to the sum of (i) 1% of its net assets, (ii) 1% of the newly issued amount of the fund trusts, and (iii) 5% of the trustee’s remunerations of its newly established property trusts.

Protection Fund Company shall use the Protection Fund under the following circumstances:

- (1) trust companies are unable to cover their debts with their capitals. Restructuring is still required after implementing the recovery and disposal plan;
- (2) trust companies are in the course of insolvency proceedings and restructuring in accordance with the laws;
- (3) trust companies are ordered to close down or deregister due to non-compliance operation;
- (4) trust companies need short-term liquidity support due to temporary cash-flow problems;
- (5) other circumstances which require the use of Protection Fund.

If the net income yield of Protection Fund is higher than one-year benchmark interest rate for deposit of the PRC after deducting daily expenses, yield will be allocated to subscribers such as trust companies and financier based on one-year benchmark interest rate for deposit of the PRC. The remaining part will be calculated in the balance of the fund. If the net yield is lower than one-year benchmark interest rate for deposit of the PRC, the yield allocation plan will be proposed by the Protection Fund Company and will be reported to the council of the fund for consideration.

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Information Disclosure

Pursuant to the *Interim Measures on Administration of Information Disclosure of Trust Investment Companies* (信託投資公司信息披露管理暫行辦法) issued by the CBRC on January 18, 2005, trust companies shall reflect the major information of their operation in compliance with the laws such as financial accounting report, corporate governance, business operation, risk management, connected transactions and other significant events and disclose to their customers and related stakeholders in a true, accurate, timely and complete manner. They shall disclose information in a standardized and timely manner under the principles of truthfulness, accuracy, completeness and comparability. Trust companies can disclose more information at their discretion on the basis that such measures are complied with.

Pursuant to the *Notice of China Banking Regulatory Commission on Relevant Issues Regarding Amendments to Disclosure Format of Annual Report of Trust Companies and Standardization of Information Disclosure* (中國銀監會辦公廳關於修訂信託公司年報披露格式規範信息披露有關問題的通知) promulgated by the General Office of the CBRC and effective from December 14, 2009, all trust companies operated normally shall disclose various information of the operation and management in a sufficient, complete and accurate manner on the basis of comprehensive implementation of Accounting Standards for Business Enterprises and based on the disclosure of annual report and the disclosure of summary format of annual report provided by the notice strictly. If trust companies actually cannot disclose such information due to special circumstances, they shall report to the CBRC for the application of the disclosure delay of annual report one month after the annual report is published. The board of directors of the trust company takes the responsibility for the truthfulness and completeness of the information disclosure. If omission or untruthfulness of data is found in the disclosure in the subsequent supervision, the CBRC will adopt corresponding punishment based on the examination and verification and the person(s) in charge will be held responsible for such problems. In disclosing the innovative business and special business for the purpose of demonstrating their own asset management and innovative capabilities and judging and selecting the information disclosure of annual report independently, trust companies shall make reference to the standards stipulated by the notice under the stringent and cautious principle and select the information with high standard to be disclosed externally in order to demonstrate the development performance of trust companies and avoid spam information.

Industry Rating

Pursuant to the *Guidelines on Industry Rating for Trust Companies (for Trial Implementation)* (信託公司行業評級指引(試行)), promulgated by China Trustee Association and effective from December 15, 2015, the industry rating for trust companies is organized by China Trustee Association and the comprehensive evaluation to trust companies from the industry perspective. The industry rating for trust companies is guided by the CBRC and conducted under the principles of quantitiveness, objectiveness, fairness and transparency to evaluate the comprehensive capability of operation and management,

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development quality, risk management, market influence and the matching between business scale and risk management. Rating items include capital strength, risk management, incremental value and social responsibility of trust companies which are referred to as CRIS system. Rating results for trust companies are determined comprehensively based on the scores in quantitative indicators from various evaluations. Such results are divided into A, B and C levels. The cycle of industry rating for trust companies is one year in principle.

Anti-money Laundering

In the capacity of financial institutions, trust companies shall comply with the requirements of laws and regulations in respect of anti-money laundering.

Pursuant to the *Anti-money Laundering Law of the People's Republic of China* (President Order No. 56) (中華人民共和國反洗錢法(主席令第56號)) promulgated by the Standing Committee of the National People's Congress on October 31, 2006 and effective from January 1, 2007, the relevant financial regulator under the State Council requires the financial institutions under its supervision and administration to establish and improve an internal control system of anti-money laundering.

Pursuant to the *Provisions on Financial Institutions Anti-money Laundering* (PBOC Order [2006] No. 1) (金融機構反洗錢規定(中國人民銀行令[2006]第1號)) promulgated by the PBOC on November 14, 2006 and effective from January 1, 2007, financial institutions and their branch offices shall establish and improve an internal control system for anti-money laundering pursuant to the law, and set up an anti-money laundering department or designate an internal department in their branches to be responsible for anti-money laundering activities.

Pursuant to the *Administrative Measures of Client Identification and Identity Materials and Transaction Recording of Financial Institutions* (Order of the PBOC, the CBRC, the CSRC, the CIRC [2007] No. 2) (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法(中國人民銀行、中國銀監會、中國證監會、中國保監會令[2007]第2號)) promulgated by the PBOC, CBRC, CSRC and CIRC on June 21, 2007 and effective from August 1, 2007, financial institutions shall establish and implement effective client identification system and implement client identity information and a transaction archiving system.

Pursuant to the *Administrative Measures on Reporting Large and Doubtful Transactions in Financial Institutions* (PBOC Order [2016] No. 3) (金融機構大額交易和可疑交易報告管理辦法(中國人民銀行令[2016]第3號)) promulgated by the PBOC on November 14, 2006, amended on December 28, 2016 and effective from July 1, 2017, financial institutions shall set up a special position for anti-money laundering duty, assign a designated person to report large and doubtful transactions, formulate an internal management system and operating procedures for large and doubtful transactions according to such measures, and file with the PBOC.

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Pursuant to the *Administrative Measures for Anti-money Laundering Supervision over Financial Institutions (for Trial Implementation)* (Yin Fa [2014] No. 344) (金融機構反洗錢監督管理辦法(試行)(銀發[2014]344) issued by the PBOC and effective from November 15, 2014, the PBOC and its branches shall conduct off-site anti-money laundering supervision over the implementation of anti-money laundering regulations by financial institutions through a series of supervision measures such as the adoption of periodic anti-money laundering reporting systems and the establishment of supervision files. Financial institutions shall designate specific staff to file anti-money laundering reports and other information that present its anti-money laundering work fairly to the PBOC or the competent branch in accordance with the requirements of the PBOC. The institution reporting on anti-money laundering is responsible for the truthfulness, completeness and timeliness of the relevant information.

Anti-corruption

The *Anti-Unfair Competition Law* (反不正當競爭法) requires that business dealers be prohibited from using properties or other means for bribing in order to sell or purchase commodities. Serious offenders shall be subject to criminal liabilities under the law. The *Interim Provisions on the Prohibition of Commercial Bribery Behavior* (關於禁止商業賄賂行為的暫行規定) has further stipulated the constitution and legal liabilities of commercial bribery.

The *United Nations Convention against Corruption* (聯合國反腐敗公約) aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, and to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption (including asset recovery); encouraging integrity, accountability and proper management of public affairs and properties. PRC Government ratified this convention in 2005 with reservations.

Anti-terrorism

Pursuant to the *Administrative Measures on Freezing of Assets Involving Terrorist Attacks* (涉及恐怖活動資產凍結管理辦法), financial institutions and special non-financial institutions established in the PRC shall freeze the related assets in strict accordance with the list of terrorist organizations and personnel list as well as the decisions on freeze assets issued by the Ministry of Public Security.

The *International Convention for the Suppression of the Financing of Terrorism* (制止向恐怖主義提供資助的國際公約) appeals for enhancement of international cooperation between countries to formulate and adopt effective measures to prevent financing the terrorism as well as deterring terrorism through prosecuting and punishing terrorist acts. PRC Government ratified this convention in 2006 with reservations.

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Regulations Governing Businesses Engaged by Trust Companies

Pursuant to *PRC Trust Law* promulgated on April 28, 2001 and came into effect on October 1, 2001, trust refers to that the trustor, based on his faith in trustee, entrusts his property rights to the trustee and allows the trustee to, according to the will of the trustor and in the name of the trustee, administer or dispose of such property rights in the interest of a beneficiary or for any intended purposes. *PRC Trust Law* regulates trustors, trustees, and beneficiaries (collectively, the “Trust Parties”) that engage in civil, business or charitable trust activities within the PRC.

As stipulated by *PRC Trust Law*, the trust assets shall be segregated from the proprietary assets owned by the trustee (hereinafter referred to as the “Proprietary Assets”), and shall not be included in, or become part of, the trustee’s Proprietary Assets. Debts generated from the trust assets administered, used and disposed of by the trustee shall not be offset by the debts generated from its Proprietary Assets. If a trustee fails to fulfill its administrative duties or handles trust matters improperly, it shall use its Proprietary Assets to satisfy resulting liabilities to third parties and assume the resulting loss to the trustee itself. In addition, the establishment of trust, Trust Parties, change and termination of trust and charitable trust are also stipulated in *PRC Trust Law*.

Regulations Governing Proprietary Businesses Conducted by Trust Companies

Pursuant to the *Administration Measures on Trust Company* (信託公司管理辦法) promulgated by the CBRC and came into effect on March 1, 2007, the proprietary businesses of trust companies may include deposits at banks and other financial institutions, lending to banks and other financial institutions, loan, leasing, investment and other businesses. The investment business activities shall be restricted to equity investments in financial enterprises, investments in financial products and investments in fixed assets for own use. Trust companies shall not administer and use trust property by means of disposal under repurchase. Subject to the regulations of the CBRC, trust companies shall not use their own assets for industrial investment. For the proprietary businesses commenced by trust companies, the following acts are forbidden:

- (i) Margin loans or transfer of property to related parties;
- (ii) Provide related parties with guarantees;
- (iii) Equity interest in the Company held by shareholders to be pledged as collateral for financing.

Related parties of trust companies are defined in accordance with *PRC Company Law* and relevant standards of the *Accounting Standards for Business Enterprises* (企業會計準則).

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Equity Investment Business Under Proprietary Businesses of Trust Companies

Pursuant to the *Notice on Relevant Issues Regarding Support of Innovation and Development of Trust Companies by the CBRC* (中國銀監會關於支持信託公司創新發展有關問題的通知) promulgated by the CBRC and effective from March 25, 2009, trust companies which engage in equity investment business with proprietary assets shall comply with the following conditions:

- (i) possess good corporate governance, internal control and audit, compliance and risk management mechanism;
- (ii) possess good social reputation and results, as well as timely and regulated information disclosure;
- (iii) no significant violation of laws and rules in the last three years;
- (iv) regulatory rating of “3 C” (inclusive) or higher for the most recent year;
- (v) sufficient monetary assets which enable themselves to bear potential compensation liability;
- (vi) possess a professional team required for engaging in equity investment business and corresponding constraint and incentive mechanism. The number of staff members who are responsible for equity investment business should be more than three, in which at least two of them with more than two years of experiences in equity investment or related business;
- (vii) possess business processing system, accounting system, risk management system and management information system which are able to support equity investment business;
- (viii) other prudential conditions as stipulated by the CBRC.

Pursuant to the *Notice on Relevant Issues Regarding Support of Innovation and Development of Trust Companies by the CBRC* (中國銀監會關於支持信託公司創新發展有關問題的通知), engaging in equity investment business with proprietary assets refers to the investment businesses of trust companies to invest into equity interests in unlisted enterprises, restricted tradeable shares of listed companies or other investable equity interests approved by the CBRC by its proprietary property, excluding participating in private equity investment trust with proprietary assets. The stipulations under the Notice are not applicable for the trust companies investing into equity in financial enterprises and tradable shares of listed companies with proprietary assets. The trust companies engaging in equity investment business with proprietary assets shall apply to the CBRC (or its local offices) for the qualification. The trust companies engaging in equity investment business with proprietary assets shall comply with the following provisions:

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- (i) No investment in related parties should be made unless prior report and information disclosure have been conducted as required.
- (ii) No exercise of control, joint control or significant influence on invested enterprises, nor participation in daily operation of the invested enterprises.
- (iii) Holding the equity of the invested enterprises shall not exceed five years.

Financing Management of Trust Companies

Pursuant to the *Administrative Measures of Trust Companies* (信託公司管理辦法) promulgated by the CBRC on January 23, 2007 and effective from March 1, 2007, trust companies shall not engage in debt business other than lending to banks and other financial institutions, and the balance of interbank borrowing shall not exceed 20% of their respective net assets unless as otherwise provided under the regulations of the CBRC.

Pursuant to the *Notice on Regulating the Interbank Business of Financial Institutions* jointly issued by PBOC, CBRC and CSRC, etc. (中國人民銀行、中國銀監會、中國證監會等關於規範金融機構同業業務的通知) and came into effect on April 24, 2014, interbank lending business refers to the participation among financial institutions in the nationwide interbank borrowing market with the approval of PBOC for unsecured financing across a united nationwide interbank lending network. Interbank lending shall comply with the *Administrative Measures for the Interbank Lending* (PBOC Order [2007] No. 3) (同業拆借管理辦法 (中國人民銀行令[2007]第3號發佈)) and relevant provisions of such measures.

Pursuant to the *Notice of the CBRC and MOF in Relation to the Issue of the Administrative Measures of the Protection Fund of Trust Industry* (中國銀監會、財政部關於印發〈信託業保障基金管理辦法〉的通知) promulgated by the CBRC and the MOF and effective from December 10, 2014, the Protection Fund Company can use the Protection Fund to provide liquidity support to trust companies. Pursuant to the *Administrative Measures for China Trust Protection Fund Co., Ltd.* (中國信託業保障基金有限責任公司監督管理辦法) promulgated by the CBRC and effective from December 18, 2014, with the approval of CBRC, the Protection Fund Company can provide liquidity support to trust companies by ways including financing and capital contribution.

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法), trust companies issue financial bonds, subordinated bonds, debt instruments and capital replenishment instruments as permitted by the CBRC in accordance with laws, in addition to the compliance with the conditions stipulated in the *PRC Company Law*, the following conditions shall also be complied with:

- (i) possess good corporate governance, risk management mechanism and internal control with appropriate business segregation and a technical support system for internal control;

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- (ii) comply with the requirements for prudential regulatory indicators;
- (iii) good regulatory rating;
- (iv) no record of significant violation of laws and rules in operations in the last two years;
- (v) it has been profitable for the past two consecutive fiscal years with stable profit expectation;
- (vi) no debts incapable of repayment upon maturity;
- (vii) other prudent conditions as stipulated by the CBRC.

Regulations Governing Trust Businesses Conducted by Trust Companies

Pursuant to the *Administration Measures on Trust Company* (信託公司管理辦法) promulgated by the CBRC and came into effect on March 1, 2007, Trust companies engaging in trust operations shall be remunerated in the form of service fees or commissions, in accordance with relevant provisions set out in the trust documents, unless otherwise provided by the CBRC. Trust companies shall not be involved in any of the following activities in the course of their trust-related operations:

- (i) seek illegitimate interests by taking advantage of their trustee status;
- (ii) divert trust property for a non-trust purpose;
- (iii) promise no loss to the trust property or guarantee minimum return;
- (iv) offer guarantee(s) based on trust property; or
- (v) any other activities prohibited by relevant laws and regulations and the CBRC.

Collective Trust Scheme Business of Trust Companies

Pursuant to the *Administrative Measures on Collective Fund Trust Scheme of Trust Companies* (信託公司集合資金信託計劃管理辦法) as promulgated by the CBRC on January 23, 2007, amended on December 17, 2008 and came into force on February 4, 2009, collective trust scheme (hereinafter referred to as the “Trust Scheme”) refers to fund trust business activities where the trust company acts as a trustee, according to the will of the trustor, to conduct centralized management, utilization or disposal of the capital entrusted by more than two (including two) trustors in the interest of a beneficiary. The establishment of the Trust Scheme by trust companies shall comply with the following requirements:

- (i) the trustor should be a qualified investor;

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- (ii) the trustor who participates in the Trust Scheme should be the sole beneficiary;
- (iii) the number of natural persons in an individual trust scheme shall not exceed 50, while the numbers of individual investors and qualified institutional investors are not restricted if the single entrusted amount exceeds RMB3 million;
- (iv) the term of trust is not less than one year;
- (v) there are clear investment directions and strategies for the trust funds, which should comply with the industrial policies of the state and other relevant regulations;
- (vi) the benefits from the trust is divided into equal trust units;
- (vii) a trust contract shall set forth the trustee's remuneration, and other than the reasonable remuneration, the trust companies must not make profit for themselves or others directly or indirectly with the trusted properties on whatever grounds;
- (viii) any other requirements prescribed by CBRC.

In order to manage the Trust Scheme, trust companies shall set up departments of trust funds utilization and information processing to serve the Trust Scheme and designate a trust manager and its relevant staff. Trust companies shall disclose information in a timely manner in accordance with laws and regulations and the provisions of Trust Scheme documents, and warrant the truthfulness, accuracy and completeness of the information of disclosure.

Pursuant to the *Notice on Relevant Issues Regarding Support of Innovation and Development of Trust Companies by the CBRC* (中國銀監會關於支持信託公司創新發展有關問題的通知), when trust companies manage collective trust scheme, such funds lent to others shall not exceed 30% of the paid-in balance of all Trust Schemes it managed, except for the trust companies which fulfil the following conditions, it can be higher than 30% but not more than 50% from March 25, 2009 to December 31, 2009. Since January 1, 2010, if such proportion exceeds 30%, there has been no further new loan collective trust scheme until such proportion to lower to less than 30%:

- (i) possess good corporate governance, internal control, compliance and risk management mechanism;
- (ii) possess good social reputation and results, as well as timely and regulated information disclosure;
- (iii) no significant violation of laws and rules in the preceding three years;
- (iv) regulatory rating of "3 C" or higher for the most recent year.

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Structured trust business conducted by trust companies

Pursuant to the *Notice on Relevant Issues Regarding Strengthening the Supervision of the Structured Trust Business of Trust Companies* (關於加強信託公司結構化信託業務監管有關問題的通知) implemented from February 10, 2010, the structured trust business refers to the collective fund scheme of which trust beneficial rights are divided in levels based on the different risk appetite of investors by trust companies and revenue is distributed in accordance with the priority and subordinated arrangements in the said levels so that investors with different degrees of risk tolerance and intention may generate different amounts of revenue and undertake corresponding risks by investing in different levels of beneficial rights. Subordinated beneficiary in the structured trust business shall be qualified investors in compliance with the stipulations under the *Administrative Measures for Collective Fund Trust Schemes of Trust Companies* (信託公司集合資金信託計劃管理辦法) and the amount they invest in a single structured trust business shall not be less than RMB1 million. In conducting the structured trust business, trust companies shall not perform the following acts:

- (i) taking advantage of the trustee's capacity as a professional to acquire ill-gotten gains with prejudice to the interests of other trust clients;
- (ii) taking advantage of the position as a trustee to engage in improper connected transactions or to offer impermissible benefits;
- (iii) taking advantage of the structured design of the trust business to acquire ill-gotten gains by the shareholders or de facto controller of trust companies;
- (iv) using interested parties as subordinated beneficiary, including but not limited to trust companies and their entire staff as well as shareholders;
- (v) investing personal wealth management funds of commercial banks in subordinated beneficial rights;
- (vi) other acts prohibited by the CBRC.

Business cooperation between trust companies and banks

Pursuant to the *Guidelines on Business Cooperation between Banks and Trust Companies* (銀行與信託公司業務合作指引) issued and implemented by the CBRC on December 4, 2008, the wealth management cooperation between banks and trust companies means that a bank entrusts the funds under the wealth management plans with a trust company which acts as a trustee to manage, utilize and dispose of in accordance with the stipulations under the trust documents.

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The wealth management cooperation between banks and trust companies shall meet the following requirements:

- (i) The principle of prudence shall be adhered to and relevant laws and regulations as well as regulatory provisions shall be complied with;
- (ii) the banks and trust companies shall keep separate accounts and set up an effective risk isolation mechanism;
- (iii) trust companies shall act diligently in independently handling matters in relation to trust, whilst the banks shall not interfere with the management of trust companies;
- (iv) relevant information on the wealth management cooperation between the banks and the trust companies shall be disclosed in full pursuant to the law in a timely manner;
- (v) other requirements set forth by the CBRC.

In addition, the banks and trust companies may conduct the credit asset securitization cooperation business, where trust companies may engage banks to promote trust schemes and the trust companies may enter into the agreement for entrusted receipt and payment of trust funds with the banks. Trust companies may invest the trust assets in the equity interests of financial institutions, provided that certain conditions have been fulfilled.

Pursuant to the *Notice of CBRC on the Regulation of Relevant Matters for the Wealth Management Cooperation Business between Banks and Trust Companies* (中國銀監會關於規範銀信理財合作業務有關事項的通知) issued and implemented on August 5, 2010, in the process of conducting the wealth management cooperation business between banks and trust companies, trust companies shall adhere to the principle of independent management to duly perform their principal responsibilities such as the selection of projects, due diligence, investment decisions and follow-up management. Commercial banks and trust companies shall comply with the following principles in conducting the financing-oriented wealth management cooperation business between banks and trust companies:

- (i) Headroom management shall be implemented on trust companies for their financing-oriented wealth management cooperation business between banks and trust companies; in particular, the balance of the financing business as a percentage of the balance of the wealth management cooperation business between banks and trust companies shall not exceed 30%.
- (ii) Trust products under trust companies shall not be designed as open-ended.

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Real Estate Trust Business of Trust Companies

Pursuant to the *Notice of the General Office of CBRC on Risk Alerts for Real Estate Trust Business of Trust Companies* (中國銀監會辦公廳關於信託公司房地產信託業務風險提示的通知), the *Notice of the General Office of CBRC on Relevant Issues Regarding Strengthening Supervision of Real Estate and Securities Businesses of Trust Companies* (中國銀監會辦公廳關於加強信託公司房地產、證券業務監管有關問題的通知) and the *Notice of the China Banking Regulatory Commission on Relevant Issues Regarding Strengthening Supervision of Real Estate Trust Business of Trust Companies* (中國銀行業監督管理委員會關於加強信託公司房地產信託業務監管有關問題的通知), real estate development projects with loan issuance by trust companies shall fulfil certain criteria, including having all “Four Permits” (namely, state-owned land use rights certificate, construction land use planning permit, construction works planning permit and construction works commencement permit), the real estate developer or its controlling shareholder has obtained Class II qualification, and capital ratio of the project has reached the national minimum requirements.

Trust companies conducting real estate trust business shall set up sound approval standards, operating procedures and risk management system on real estate loan or investment with practical implementation; conduct due diligence on projects to have an in-depth understanding of the qualification (such as the real estate development enterprise qualification certificate (房地產開發企業資質證書) of the real estate developer and/or the licenses or permits obtained by the relevant real estate development projects), financial position, credit status and development history of the real estate enterprises, in addition to capital, the “Four Permits” and development prospects of real estate projects to ensure legitimacy, compliance and feasibility of the real estate trust business; strictly implement real estate loan guarantees to ensure truthfulness, legitimacy and effectiveness of the guarantees; and reinforce project management to closely monitor the status of real estate trust loans or investment.

Securities Investment Trust Business of Trust Companies

Pursuant to the *Operating Guidelines on Securities Investment Trust Business of Trust Companies* (信託公司證券投資信託業務操作指引) promulgated and implemented by the CBRC on January 23, 2009, securities investment trust business refers to the operational behaviors which trust companies invest capital under a collective trust scheme or individually managed trust products in public offering of securities according to the laws and in law-compliant trading places for public trading. Trust companies engaging in securities investment trust business shall be in compliance with the laws, establish a clear development plan, and develop business development strategies, business procedures and risk management system to be in line with its own characteristics for the securities investment trust. When conducting trust business in securities investment, trust companies shall make timely, accurate and complete disclosure of information in accordance with the laws and regulations and as stipulated in trust documents. For the securities investment trust business in the manner of collective management, a trust company shall disclose the NAV of trust unit according to the following requirements: (i) disclosing the NAV of trust unit

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at the trust company's website at least once a week; (ii) sending written materials on the NAV of trust unit to clients and beneficiaries at least once every 30 days; and (iii) disclosing the NAV of trust unit on the previous trading day as requested by a client or beneficiary any time. In addition, When there are important matters with respect to a securities investment trust, such as the convening of beneficiaries' meetings, change of investment advisor, custodian bank, securities broker or our trust manager, or distribution of trust benefits, special reports prepared and distributed to trustors and beneficiaries are also needed.

Pursuant to the *Notice of the China Banking Regulatory Commission on Risk Alerts for Securities Investment Business of Trust Investment Companies* (中國銀行業監督管理委員會關於信託投資公司證券投資業務風險提示的通知) promulgated and implemented by the CBRC on January 23, 2007, trust companies shall reinforce risk control to strictly prevent operational risks in securities investment. For disclosure of information, trust companies shall: firstly, disclose investment information to beneficiaries in a timely manner in accordance with the provisions in trust documents and regulatory requirements; secondly, disclose information on proportionate positions and net values of trust properties at least once a week, and positions of preceding month for once a month. The foregoing disclosure of information shall be made in appropriate ways to inform the beneficiaries of time, contents and methods of enquiries, in addition to written reports on proportionate positions, net values and contents of positions on a monthly basis to the CBRC bureau where the trust company is located; thirdly, the disclosure of information on securities investment business of trust companies shall be complete, true, accurate, fully remind the characteristics of the trust products and risks in securities investment, emphasize the risks to be borne by investors themselves and not undertake no losses to be incurred from, or guarantee minimum earnings of, the trust properties.

Private Equity Investment Trust Business of Trust Companies

Pursuant to the *Operating Guidelines on Trust Business in Private Equity Investment by Trust Companies* (信託公司私人股權投資信託業務操作指引) promulgated and implemented by the CBRC on June 25, 2008, private equity investment trust refers to trust business where the capital under a trust scheme of trust companies to invest into equity interests in unlisted enterprises, restricted tradeable shares of listed companies or other investable equity interests approved by the CBRC.

For trust companies to invest trust funds into equity interests in offshore unlisted enterprises, it is subject to approval of the CBRC and relevant regulatory authorities; for private equity investment trust to invest into equity interests in financial institutions and companies intended to listing, it is subject to the provisions of relevant financial regulatory authorities. Trust companies shall personally exercise the rights of relevant shareholders of investee enterprises under a trust scheme in their own names and as stipulated in trust documents without interference from trustors nor beneficiaries. Trust companies shall make timely, accurate and complete disclosure of information on private equity investment trust schemes in accordance with the laws and regulations and as stipulated in trust documents.

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Information disclosed by trust companies shall be in compliance with the criteria of contents and formats relating to information disclosure as set by the CBRC and other regulatory authorities. Trust companies which manage private equity investment trust are entitled to charge management fee and commission on results but no other fees other than the management fee and commission on results.

Project Financing Business Conducted by Trust Companies

Pursuant to the *Notice on Relevant Issues with Capital of Projects Involved in Relation to Project Financing Business Conducted by Trust Companies by the CBRC* (中國銀監會關於信託公司開展項目融資業務涉及項目資本金有關問題的通知) promulgated and came into force on September 3, 2009, trust companies shall strictly execute the national management system on capital in investment projects in relation to fixed assets in order to reinforce review and confirmation of the authenticity of project capital source and availability. Debt funds including shareholders' loans (save for the circumstances where shareholders undertake that they shall forgo the right to receive compensation in relation to such shareholders' loans prior to repayment of loans to banks or trust companies by project companies) and bank loans, and Personal Financial Management Funds in banks (except for private banking business in commercial banks) are not allowed to be used as capital of projects.

Trust companies shall not use debt funds relating to collective fund trust scheme for replenishing project capital so as to meet the minimum requirement of project capital as stipulated by the state. The aforementioned debt funds relating to collective fund trust scheme include trust funds utilized in means of equity investment with additional undertaking of repurchase (including circumstances where investment with additional related party transferee or investment with additional other third party transferee). When trust companies conduct trust business in private equity investment in accordance with the *Operating Guidelines on Trust Business in Private Equity Investment by Trust Companies* (信託公司私人股權投資信託業務操作指引), the circumstance of agreed equity investment with additional repurchase option shall not apply to the foregoing provision.

Welfare Trust Business Conducted by Trust Companies

Pursuant to *PRC Trust Law*, a trust established for any of the following public interest purposes belongs to a welfare (公益) trust:

- (i) poverty relief;
- (ii) disaster victims rescue;
- (iii) support of the disabled;
- (iv) development of education, science and technology, culture, arts and sports;

REGULATORY OVERVIEW

- (v) development of medical and healthcare services;
- (vi) development of environmental protection and maintenance of ecological environment;
- (vii) development of other social welfare.

The establishment of a welfare trust and the appointment of trustees are subject to approval by related governing bodies of public welfare (hereinafter referred to as the “Public Welfare Authorities”). Trust properties and their earnings under a welfare trust shall not be used for non-public interest purposes. Trust supervisors shall be deployed under a welfare trust, who are entitled to bring a lawsuit or do other legal acts in their own names in the interest of a beneficiary.

Pursuant to the *Notice of the General Office of CBRC on Support of Post-Disaster Reconstruction Work by Encouragement of Trust Companies for Conducting Welfare Trust Business* (中國銀監會辦公廳關於鼓勵信託公司開展公益信託業務支持災後重建工作的通知) promulgated and implemented on June 2, 2008, trust companies which establish a welfare trust can perform promotion and propaganda publicly through the media. A trustor of a welfare trust can be a natural person, an institute or other organizations established in accordance with the laws, whereas its number and entrusted amount are unlimited. Trust companies shall report the treatments on the affairs and property status of the welfare trust at least every half a year (upon the recognition of trust supervisors) and subsequently file at the CBRC and the Public Welfare Authorities and make an announcement upon the approval by the trust supervisors.

Pursuant to the *Charity Law of the People’s Republic of China* (中華人民共和國慈善法) which was issued on March 16, 2016 and implemented on September 1, 2016 and the *Administrative Measures for Charitable Trust*, which was issued and implemented on July 10, 2017, charitable (慈善) trust is a kind of welfare trust. It refers to a trustor entrusts its properties to a trustee pursuant to laws for the purposes of charity and is managed and disposed of under the name of trustee by the trustor to carry out charitable activities. The establishment of charitable trust and determination of trustee and supervisor shall be carried out in written form. The trustee shall file the relevant documents with the civil administration department of the People’s government at or above the county level where the trustee is located within 7 days commencing from the date of the signing of charitable trust documents. The trustee of the charitable trust can be served by a charitable organization as determined reliable by the trustor or trust company.

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The duties of trustee management and disposal of trust properties for charitable trust shall be with dedication and the relevant obligations shall be performed with faith, credibility and cautiousness based on the trust's objectives. The trustee of the welfare trust shall report to the trustor the handling of trust affairs and the management and use of trust properties pursuant to the trust documents as requested by the trustor. The trustee of the charitable trust shall report the handling and financial position of trust affairs to the civil administration department with which documents are filed at least once a year and disclose to the public.

Enterprise Annuity Fund Management Business by Trust Companies

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of the CBRC* (中國銀監會信託公司行政許可事項實施辦法), trust companies shall fulfil certain criteria when they apply for Enterprise Annuity Fund Management Business. Trust companies applying for the qualification of Enterprise Annuity Fund Management Business shall apply to the CBRC branch or to the CBRC offices of the city where the trust company is located. Acceptance of application and preliminary examination shall be made by the CBRC branch or the CBRC offices, and shall be reviewed and decided by the CBRC offices which will make a decision in writing for granting or not granting an approval within three months from the date of acceptance of the application or the date of receipt of the complete application materials, in which the written decision will be copied to the CBRC.

Transactions of Stock Index Futures by Trust Companies

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of the CBRC* (中國銀監會信託公司行政許可事項實施辦法) and the *Notice of the CBRC on Printing and Publication of Guidelines on Participation of Business in Transactions of Stock Index Futures by Trust Companies* (中國銀監會關於〈印發信託公司參與股指期貨交易業務指引〉的通知), trust companies shall fulfil certain criteria when they apply for the qualification of business in transactions of stock index futures and possess a corresponding information system complying with the requirements. When conducting trust business in stock index futures, trust companies shall make timely, accurate and complete disclosure of information in accordance with the laws and regulations and as stipulated in trust documents. For the participation of transactions of stock index futures by an individual trust of a trust company, the risk exposure of holding stock index futures at day end of any trading day shall not exceed 80% of the net value of trust assets and shall be in compliance with relevant rules of the exchange.

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Entrusted Offshore Wealth Management Business by Trust Companies

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of the CBRC* (中國銀監會信託公司行政許可事項實施辦法) and the *Interim Measures on Administration of Entrusted Offshore Wealth Management Business by Trust Companies* (信託公司受託境外理財業務管理暫行辦法), entrusted offshore wealth management business refers to a domestic institute or a resident individual (the “Trustor”) to entrust a trust company with all legitimate capital for establishing a trust, in which the trust company to conduct offshore operational activities relating to regulated financial product investment and asset management in its own name and by the methods as stipulated in trust documents. Trust companies applying for the qualification of entrusted offshore wealth management business shall apply to the CBRC branch or to the CBRC offices of the city where the trust company is located. Acceptance of application and preliminary examination shall be made by the CBRC branch or the CBRC offices, and shall be reviewed and decided by the CBRC offices. Trust companies engaging in entrusted offshore wealth management business shall entrust onshore commercial banks which have been approved by the CBRC and have obtained custodian qualification under the Qualified Domestic Institutional Investors (QDII) scheme as their onshore custodians in order to place all of their assets used for offshore investment under trusteeship. In addition, trust companies conducting entrusted offshore wealth management business shall also establish a corresponding risk management system and specify administrative departments in relation to the entrusted offshore wealth management business.

Trustee for Trusts Designated for Certain Purposes by Trust Companies

Pursuant to the *Measures for the Implementation of the Administrative Licensing of Trust Companies of China Banking Regulatory Commission* (中國銀監會信託公司行政許可事項實施辦法), certain conditions are required to meet for a trust company to apply for the qualifications as a trustee for trusts designated for certain purposes. Trust companies applying for the qualification of trustee for trusts designated for certain purposes shall apply to the CBRC branch or to the CBRC offices of the city where the trust company is located. Acceptance of application and preliminary examination shall be made by the CBRC branch or the CBRC offices, and shall be reviewed and decided by the CBRC offices which will make a decision in writing for granting or not granting an approval within three months from the date of acceptance of the application or the date of receipt of the complete application materials, in which the written decision will be copied to the CBRC. Qualified trustee for trusts designated for certain purposes shall report the product status to the CBRC branch and the CBRC before issuance of the asset-backed securities and copy to the CBRC.

OUR HISTORY AND DEVELOPMENT

OUR HISTORY

We were established in 1987 and have been in continuous operation for almost three decades. Today, the trust industry is one of the four pillars of China's financial system — along with banks, insurance companies and securities companies — ranking second to banks, with over RMB20.22 trillion of total trust assets as of December 31, 2016.

The development of the trust industry in China can be broadly divided into two phases: before and after the enactment of the PRC Trust Law. The enactment of the PRC Trust Law in 2001 was a milestone in the trust industry in China as it laid the legal foundation for the business and product offerings of trust companies today. As a result of the industry-wide reforms, the number of trust companies in China decreased significantly.

Pre-PRC Trust Law Phase

We were established on March 10, 1987 as an enterprise owned by the whole people (全民所有制企業) under our original name “Shandong International Trust & Investment Company (山東省國際信託投資公司)”, following approval of the PBOC and the Shandong Provincial People's Government. With an initial registered capital of RMB50 million, we were tasked with the role of acting as the financing platform for the Shandong Government, with a focus on satisfying the funding requirements of infrastructure projects in Shandong Province. Since our establishment, we have played an important role in the economic development of Shandong Province, one of China's top three provinces by GDP in 2015, according to the data from National Bureau of Statistics. We continue to provide financing for some of Shandong Province's landmark infrastructure projects today, such as the construction projects for high-speed railway line, electricity facilities and airport.

Since our establishment in 1987, we have witnessed and experienced the industry-wide reforms in China and have emerged from each one unscathed and stronger than before. In 1990, the Central Government instigated a reform program to rein in inflation and maintain financial stability. Many trust companies were closed down or restructured and the number of trust companies decreased significantly as a result of the reforms. We received our updated business license upon re-registration on December 27, 1990, with a registered capital of RMB450 million. As we grew rapidly in the early 1990s, our registered capital was increased to RMB1,100 million in August 1994.

During the 1990s, we were active in the international capital markets and successfully launched Samurai Bonds in Japan (1993) and Dragon Bonds in Singapore (1994) to provide large amounts of funding for enterprises and projects designated by the Shandong Government. As trust companies in China proliferated in the 1990s, China had yet to enact a trust law and there was a lack of a robust legal and supervisory framework over the trust industry. With the onset of the Asian financial crisis in 1997, asset quality of Chinese trust companies deteriorated significantly and trust companies generally found themselves in financial difficulty.

OUR HISTORY AND DEVELOPMENT

During the period of industry reform following the Asian financial crisis, a large number of trust companies in the PRC were suspended or closed down. After this industry reform, the number of trust companies decreased significantly. We were one of the few trust companies in Shandong Province to survive the Asian financial crisis and the subsequent industry reform.

Post-PRC Trust Law Phase

In 2002, we were converted from an enterprise owned by the whole people (全民所有制企業) into a limited liability company, whereby our ownership interest held by Shandong Provincial Finance Bureau (山東省財政廳) was allocated to Lucion Group (which was then wholly-owned by Shandong SASAC) as representative of the Shandong Government to exercise its shareholder rights in us thereafter. We obtained our updated business license as a limited liability company on August 1, 2002, and our ownership structure at the time was as follows:

Name of Shareholder	Capital Contribution (RMB)	Approximate Percentage of Equity Interest
Lucion Group	1,100 million	85.93%
Shandong High-Tech Venture Capital	80 million	6.25%
Shandong Gold Group	40 million	3.14%
Jinan Energy Investment	30 million	2.34%
Weifang Investment	30 million	2.34%

With the enactment of the *Administration Measures of Trust Companies* and the *Administrative Measures on Collective Fund Trust Scheme of Trust Companies*, which came into effect on March 1, 2007, trust companies in the PRC entered into a new phase of innovative development. We were one of the first trust companies to receive the “Financial Business Permit” from the CBRC. After the CBRC’s approval, we changed our name to “Shandong International Trust Corporation (山東省國際信託有限公司)” in August 2007.

Over our history, we have learned to become nimble, efficient as well as responsive to market demands. During the 2008 global financial crises and with the PRC Government’s active response to launch a RMB4,000 billion stimulus package, we were able to capture the opportunity to provide financial support to China’s continued economic growth. This was the start of a period of robust growth for us, and we achieved trust AUM of RMB300 billion in six years.

OUR HISTORY AND DEVELOPMENT

In August 2014, we increased our registered capital by capitalizing undistributed profits of RMB186,666,666.67 as registered capital to all of our Shareholders at the time on a *pro rata* basis upon the completion of which we increased our registered capital to RMB1,466,666,666.67. Thereafter, our registered capital was further increased by RMB533,333,333.33, whereby CNPC Assets Management and Shandong High-Tech Venture Capital subscribed for RMB500,000,000 and RMB33,333,333.33 of additional registered capital, respectively. As a result of these increases in registered capital, our registered capital was further increased to RMB2,000,000,000, and our ownership structure upon completion of such registered capital increases was as follows:

Name of Shareholder	Capital Contribution (RMB)	Approximate Percentage of Equity Interest
Lucion Group	1,260,416,666.67	63.02%
CNPC Assets Management	500,000,000.00	25.00%
Shandong High-Tech Venture Capital	125,000,000.00	6.25%
Shandong Gold Group	45,833,333.33	2.29%
Jinan Energy Investment	34,375,000.00	1.72%
Weifang Investment	34,375,000.00	1.72%

We launched our joint-stock reform in late 2014, with September 30, 2013 as our valuation date. On January 22, 2015, Shandong SASAC issued its approval for our joint-stock reform plan. We were converted from a limited liability company into a joint stock limited company with new company name “Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司)” and we obtained our new business license on July 30, 2015. The following table sets forth our Promoters and their respective capital contributions at the time:

Name of Shareholder	Capital Contribution (RMB)	Approximate Percentage of Shareholding Interest
Lucion Group	1,260,416,666.67	63.02%
CNPC Assets Management	500,000,000.00	25.00%
Shandong High-Tech Venture Capital	125,000,000.00	6.25%
Shandong Gold Group	45,833,333.33	2.29%
Jinan Energy Investment	34,375,000.00	1.72%
Weifang Investment	34,375,000.00	1.72%

Our PRC legal advisor considers that our joint-stock reform was in compliance with the relevant laws and regulations in the PRC and had been approved by the relevant PRC authorities.

OUR HISTORY AND DEVELOPMENT

Our Milestones

The following is a summary of our key development milestones:

Year	Event
1987	<ul style="list-style-type: none">We were established on March 10, 1987.
1991	<ul style="list-style-type: none">We were licensed to conduct securities business.
1993	<ul style="list-style-type: none">We successfully issued JPY10 billion of Samurai bonds in Japan.
1994	<ul style="list-style-type: none">We successfully issued US\$134 million on Dragon bonds in Singapore.
1999	<ul style="list-style-type: none">We became one of the first trust companies in China to meet all overseas repayment obligations in full on time.
2002	<ul style="list-style-type: none">We were converted from an enterprise owned by the whole people (全民所有制企業) into a limited liability company.
2011	<ul style="list-style-type: none">Our trust AUM exceeded RMB100 billion.
2014	<ul style="list-style-type: none">Our trust AUM reached RMB300 billion.
2015	<ul style="list-style-type: none">We completed our joint-stock reform and became a joint stock limited company.
2016 and 2017	<ul style="list-style-type: none">We were rated “Class A” (the highest rating attainable) in the industry-wide rating organized by the China Trustee Association under the supervision of CBRC for the years of 2015 and 2016 based on comprehensive assessment of our capital strength, risk management, incremental value and social responsibility.

OUR HISTORY AND DEVELOPMENT

ESTABLISHMENT OF THE PARTY COMMITTEE IN MAY 2011

According to “The Constitution of the Communist Party of China” and other relevant rules, the Company established the Communist Party Committee of Shandong International Trust Co., Ltd. (the “Party Committee”) in May 2011, which plays a core leading role and a core political role in the Company. The Party Committee consists of five members, including certain of our Directors, our Supervisors, senior management and other employees of our Company. The Party Committee is responsible for ensuring the development of the Company is in line with the policies of the Communist Party. The Party Committee mainly assumes the following responsibilities:

- (i) to study and convey the principles and policies and the laws and regulations of the Communist Party of the PRC (the “Party”) and the State, to research and formulate the measures to thoroughly promote and carry out such principles and policies, and to solve any issues arising out of the implementation;
- (ii) to study and formulate the working plans of the Party Committee, to organize major events and to implement measures in relation to strengthening the Party building;
- (iii) to study the building of an honest and clean administration within the Party and to promote the anti-corruption work;
- (iv) to study, consider and approve the proposals submitted by the employee representative meeting, the discipline inspection committee, the labor union, the Communist Youth League, the Women’s Federation and the united front work department and other organizations of the Company (including their activity plans and budget plans), and other major issues concerning the immediate interest of the employees;
- (v) to support the Board of Directors, the board of Supervisors and the management in their performance of duties and responsibilities; and
- (vi) to study and consider other major issues of the Company.

In response to the Guiding Opinion regarding the Further Improvement in Corporate Governance Structure of State-Owned Enterprises (《關於進一步完善國有企業法人治理結構的指導意見》) promulgated by the General Office of the State Council on April 24, 2017, the proposal on certain amendments in relation to the Party Committee to the Articles of Association (the draft of which was first approved at the annual general meeting of the Company held on May 4, 2016) was submitted to the extraordinary shareholders’ general meeting of the Company held in June 2017, and was approved thereby. The State Council is the highest administrative body of the PRC and regulates state-owned enterprises through SASAC. The proposal involves the addition of a chapter on the Party Committee (“Chapter 13. Grassroots Organization of the Party”) to the Articles of Association, which includes (i) the establishment of the Party Committee and the discipline inspection committee, (ii) the

OUR HISTORY AND DEVELOPMENT

Party Committee's responsibility for the establishing and perfecting the grassroots organization of the Party, and the core leading role and core political role of the Party Committee, (iii) the formulation and perfection of relevant regulations and rules of the Company, and (iv) the establishment of the decision making mechanism for the Party Committee. For further details, see "Summary of The Articles of Association — Communist Party Committee" in Appendix V. The amended Articles of Association has been approved by CBRC Shandong Office on August 2, 2017.

OUR EXISTING SHAREHOLDERS

Lucion Group

Lucion Group, currently owned as to 70% by Shandong SASAC and as to 30% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會), was established under the laws of the PRC in January 2002 and is one of our Controlling Shareholders and Promoters. Lucion Group is an investment holding company principally engaged in financial and industrial investment, asset management services and investment consultancy services and property and hotel management.

Shandong High-Tech Venture Capital

Shandong High-Tech Venture Capital, one of our Controlling Shareholders and Promoters, was established under the laws of the PRC in June 2000. Shandong High Tech Venture Capital is principally engaged in, among others, venture capital investment, providing consultancy and management services regarding venture capital investment and establishing venture capital investment management companies. Shandong High-Tech Venture Capital is a wholly-owned subsidiary of Luxin Venture Capital, a company listed on the Shanghai Stock Exchange (stock code: 600783) and a non-wholly owned subsidiary of Lucion Group.

CNPC Assets Management

CNPC Assets Management was established in China in April 2000 and is one of our Promoters and a substantial Shareholder. It is currently a wholly-owned subsidiary of CNPC Capital Company Limited, a wholly-owned subsidiary of CNPC Capital Company Limited By Shares which is an A share listed company whose controlling shareholder is China National Petroleum Corporation (中國石油天然氣集團公司), China's largest oil and gas producer and supplier and an enterprise owned by the whole people (全民所有制企業). CNPC Assets Management is principally engaged in investment and asset management.

Shandong Gold Group

Shandong Gold Group, one of our Promoters, was established in July 1996 under the laws of the PRC. It is currently owned as to 70% by Shandong SASAC and as to 30% by Shandong Provincial Council for Social Security Fund. Shandong Gold Group is principally engaged in gold mining.

OUR HISTORY AND DEVELOPMENT

Jinan Energy Investment

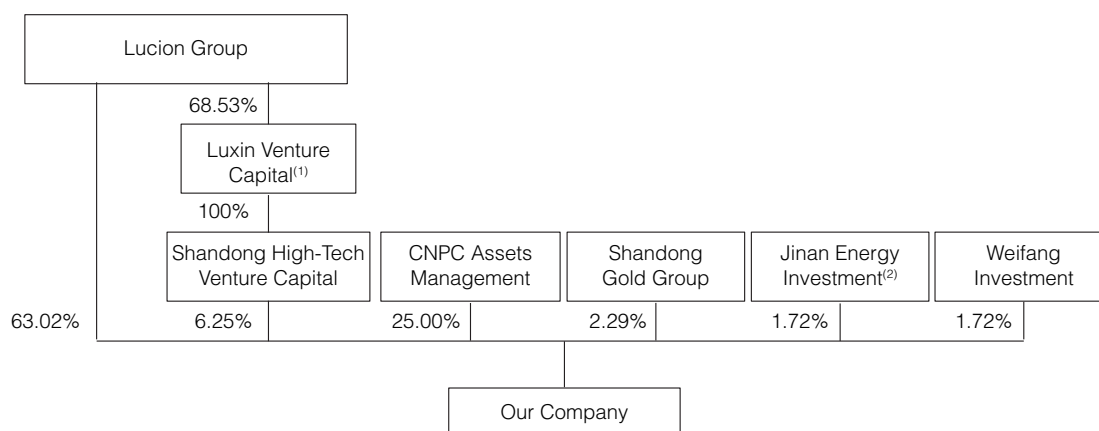
Jinan Energy Investment, one of our Promoters, was established in April 1998 under the laws of the PRC. It is currently a PRC state wholly-owned company, whose sole shareholder is Jinan Industry Development Investment Group Co., Ltd. (濟南產業發展投資集團有限公司), which is wholly owned by the State-owned Assets Supervision and Administration Commission of Jinan Municipal People's Government (濟南市人民政府國有資產監督管理委員會). Jinan Energy Investment is principally engaged in the management of infrastructure construction fund of Jinan City, Shandong Province.

Weifang Investment

Weifang Investment is a limited liability company established in August 1992 under the laws of the PRC and one of our Promoters, which is currently wholly owned by the State-owned Assets Supervision and Administration Commission of Weifang City. Weifang Investment is principally engaged in providing financing for projects in various industries.

OUR SHAREHOLDING STRUCTURE

Set forth below is our shareholding structure immediately before the Global Offering.

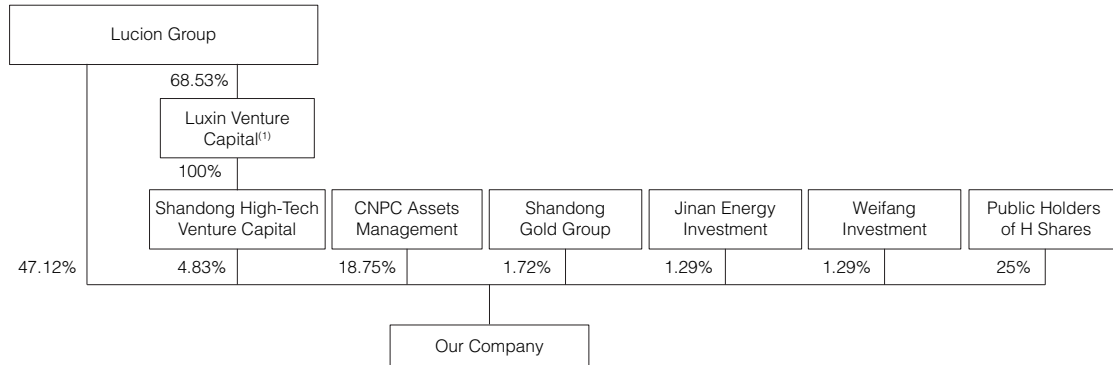


Notes:

- (1) Luxin Venture Capital, a company listed on the Shanghai Stock Exchange, is owned as to 68.53% by Lucion Group as of the Latest Practicable Date.
- (2) The Company received a notice dated November 30, 2016 from an intermediate court in the PRC, which provided that 30,000,000 Shares held by Jinan Energy Investment (representing 1.50% of the total issued share capital of the Company as of the Latest Practicable Date) shall not be disposed of during the two-year period from November 30, 2016 to November 29, 2018. The notice was issued in response to a property preservation application in relation to a civil litigation by a third party against Jinan Energy Investment.

OUR HISTORY AND DEVELOPMENT

Set forth below is our shareholding structure immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). For more information, see “Share Capital”.



Note:

- (1) Luxin Venture Capital, a company listed on the Shanghai Stock Exchange, is owned as to 68.53% by Lucion Group as of the Latest Practicable Date.

OVERVIEW

We are a comprehensive financial and wealth management service provider in China, utilizing our trust products to provide diversified financing and investment services. We compete with other trust companies and various other financial institutions in China. We ranked 6th among all trust companies the controlling shareholders of which have local government background and ranked 25th among all trust companies in China in terms of total trust assets in 2016 according to Wind Info. As a trust company licensed by the CBRC, we are permitted to conduct our business across multiple financial markets, including direct financing for the real economy, capital markets and money markets in China. We were rated “Class A” (the highest rating attainable) in the industry-wide rating organized by the China Trustee Association under the supervision of CBRC for the years of 2015 and 2016 based on comprehensive assessment of our capital strength, risk management, incremental value and social responsibility. We were rated “Excellent (AAA)” (the highest rating attainable) in the performance assessment of all local financial institutions in Shandong organized by the Shandong Provincial Finance Bureau in 2016 based on comprehensive assessment of our profitability, asset quality, liquidity and business growth. Following a market-oriented approach, we closely monitor changes in the economic and market conditions in China to identify market opportunities, and have timely and adeptly adjusted our development strategies to grow our business.

We have two major business lines, which are the trust business and proprietary business.

- Trust business is our core business. Utilizing the flexibility of trust arrangements under PRC laws, the expanded business scope under our trust license and our strong management capabilities, we have developed a broad range of trust products to satisfy the financing, investment, wealth management and succession needs of our various types of clients. We have financing trusts that focus on providing flexible financing for real estate and government infrastructure projects and various types of industrial and commercial enterprises. We have investment trusts that focus on satisfying the investment, wealth management and succession needs of our trustor clients. We also have administrative management trusts for which we provide mainly trust administration services.
- Our proprietary business focuses on allocating our proprietary assets into different asset classes and investing in businesses with strategic value to our trust business. We have made strategic long-term investments in a number of financial institutions, which helped us establish stronger business relationships with these financial institutions and created synergies for our respective arms of business. We also invest our proprietary assets in a variety of financial products to maintain our liquidity, satisfy net capital requirement for the expansion of our trust business and maintain and increase the value of our proprietary assets.

BUSINESS

We have successfully withstood economic and market fluctuations over the past few years and achieved rapid growth. The trust AUM of all of our trusts increased from RMB112,392 million as of December 31, 2011 to RMB254,637 million as of December 31, 2016, representing a CAGR of 17.8%. During the Track Record Period, the trust AUM of all of our trusts decreased from RMB326,989 million as of December 31, 2014 to RMB240,750 million as of December 31, 2015, then increased to RMB254,637 million as of December 31, 2016, and remained almost unchanged at RMB254,499 million as of May 31, 2017. During the Track Record Period, our average actual trustee's remuneration rate (annualized) decreased from 0.41% in 2014 to 0.37% in 2015, then to 0.33% in 2016, and increased from 0.30% in the five months ended May 31, 2016 to 0.45% in the same period of 2017.

During the Track Record Period, our total operating income increased from RMB1,766.2 million in 2014 to RMB1,785.7 million in 2015, but decreased to RMB1,327.4 million in 2016, and increased from RMB377.6 million for the five months ended May 31, 2016 to RMB654.2 million for the five months ended May 31, 2017. Net profit attributable to the shareholders of our Company increased from RMB985.5 million in 2014 to RMB1,075.5 million in 2015 but decreased to RMB833.0 million in 2016, and increased from RMB282.9 million for the five months ended May 31, 2016 to RMB399.8 million for the five months ended May 31, 2017.

OUR STRENGTHS

We are a comprehensive financial and wealth management service provider in China, utilizing our trusts to provide diversified financing and investment services. We believe the following competitive strengths contribute to our success and distinguish us from our competitors.

We provide cross-markets, diversified and customized trust products and services to satisfy our clients' various financing and investment needs.

We are a trust company licensed by the CBRC. We fully utilize the advantages of our trust license and the unique features of trust arrangements to provide diversified financing and investment services to our clients across different financial markets in China.

We conduct our business across multiple financial markets, including direct financing for the real economy, capital markets and money markets, which not only helps us provide comprehensive financing and investment services to our clients but also enables us to capture business opportunities emerging in different financial markets at different times. As a comprehensive financial and wealth management service provider, we provide trust products and services to directly and effectively connect the investment needs and financing needs of respective clients and help them reduce transaction costs and increase efficiency.

- Flexible financing services

We provide flexible financing services in various financial markets to different types of enterprises, institutions and individuals across a variety of industries, which we refer to as our financing clients. Comparing to traditional financial institutions, we believe we enjoy unique advantages in terms of the flexibility of financings that we can provide through our trust schemes.

Firstly, we are subject to different regulations from commercial banks in China and are more flexible in providing financing to enterprises in various industries. For example, we have established real estate trusts and government platform and infrastructure trusts that offer flexible financing arrangements to real estate developers and governmental infrastructure development projects to satisfy their financing needs that cannot be effectively satisfied by commercial banks.

Secondly, we directly connect the investment needs and financing needs in the real economy. Financing transactions through our trust arrangements do not involve a third party, such as a commercial bank, that makes profit through an interest spread. Therefore, our trust products may help reduce transaction costs and make the financing transaction more efficient, which makes them a favored financing option for both financing providers and receivers.

Thirdly, we provide diversified and customized products and services. According to the different financing needs of our clients, we provide a variety of financings, such as loans, equity investment, mezzanine financings and financial leasing, and offer tailor-made financing plans to address each financing client's particular financing needs. For example, we provide financings to real estate developers through a combination of equity investment and loans that help them obtain financings and enable us to get more involved in the management of the relevant real estate projects and ensure a higher investment return.

- Diversified wealth management services

We provide cross-market and diversified wealth management service to corporate and institutional investors and HNWIs, which we refer to as our investing clients. We believe our wealth management services enjoy unique advantages because of our ability to offer a variety of trust products that can satisfy different clients' specific liquidity requirements, risk appetite and expectations for investment returns.

Firstly, because we can invest across direct financing for the real economy, capital markets and money markets, we can offer suitable investment products and services based on our investing clients' needs in different economic environments that are designed to capture opportunities in ever-changing trend in real economy among different sectors. For example, we would increase offering

of industrial and commercial enterprise trusts when the real economy is flourishing; we would increase offering of real estate trusts when the property market is rapidly growing; and we would increase offering of securities investment trusts when capital markets are on the rise; in each case, creating opportunities for our investing clients to benefit from the expected growth in the relevant markets.

Secondly, we offer trust products that can satisfy a variety of wealth management needs of our investing clients. Our trust products include those invest in money market products, fixed-income products and equity products as well as combinations thereof. We can also design trust product that are tailor-made to fit our investing client's particular wealth management needs. For example, the Zun Yue Jin Qu (尊岳進取) series of our trusts combines investments in equity securities with fixed-income products, which allows our investing clients to enjoy both stable fixed return and potential additional return from appreciation in investment in equity securities.

Thirdly, we can help individual clients achieve their wealth succession goals through our family trusts. Our clients may entrust funds as well as various other types of properties, such as real properties, securities, beneficial interests in insurance policies, precious metals, diamonds and artworks, to us and utilize the various institutional advantages of trust arrangements under PRC laws to secure their wealth succession plans. We have established a Trust Business Unit dedicated to family trust business and provide standardized, high-quality family trust services to capture increasing demand among HNWI's in China.

Flexible development strategies that enable us to continuously capture market opportunities and achieve rapid growth.

We take full advantage of our cross-markets operation as a trust company to closely monitor changes in the Chinese economy at different development stages and identify market opportunities to grow our business. We hold regular meetings to discuss market conditions, exchange views on market trends and explore new business opportunities. Our Research and Development Center also has dedicated personnel that continuously follow market changes, summarize market conditions and development trends, and provide support for the formulation of our strategies. Following a market-oriented approach, we have timely and adeptly adjusted our development strategies to continuously capture business development opportunities that emerged from changes in market conditions from time to time.

BUSINESS

We have successfully captured various market opportunities to grow our business during the Track Record Period.

- Benefiting from economic development and improvement of the regulatory regime, the trust industry in China entered a rapid development phase in 2007, and we have captured this opportunity and taken full advantage of the flexibility offered by our trust arrangements to rapidly expand the scale of our business. The trust AUM of all of our trusts increased from RMB112,392 million as of December 31, 2011 to RMB254,637 million as of December 31, 2016, representing a CAGR of 17.8%, and remained almost unchanged to RMB254,499 million as of May 31, 2017.
- In response to changes in market environment, we have focused more on improving the quality of our growth and increasing the efficiency of our operations since 2013 and spent significant efforts to enhance our active management capabilities and enhanced our efforts to expand our actively managed trusts. During the Track Record Period, the total AUM of our actively managed trusts as a percentage of our total trust AUM continuously increased and was 15.4%, 16.5%, 24.3% and 31.8% as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively; and the fee and commission income from our actively managed trusts as a percentage of our total fee and commission income also continuously increased and was 47.2%, 48.7%, 55.0%, 52.1% and 68.2% in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017 respectively.
- China's capital markets experienced rapid growth from 2013 and we captured the opportunity to rapidly expand relevant trust business. The trust AUM of our management securities investment trusts, structured securities investment trusts and bond markets trusts in aggregate amounted to RMB3,631 million as of December 31, 2014, RMB13,359 million as of December 31, 2015, RMB9,968 million as of December 31, 2016 and RMB10,099 million as of May 31, 2017, respectively. As the Chinese government has recently adopted various measures to encourage business start-ups and innovations, we have also started to design trusts focusing on venture capital and private equity investment markets so as to position ourselves to benefit from the rapid growth in new emerging enterprises in China.
- As a result of the rapid wealth accumulation in China in recent years, we saw growing demand for comprehensive wealth management services as well as family trust arrangements that can satisfy institutional clients' and HNWI's assets management, wealth appreciation and succession needs. We have been closely following such market demand and actively developing our family and discretionary wealth management trusts. The trust AUM of our family and discretionary wealth management trusts increased from RMB60 million as of December 31, 2014 to RMB495 million as of December 31, 2015 and then increased to RMB2,920 million as of December 31, 2016 and further increased to

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RMB3,900 million as of May 31, 2017. Our income from such trusts increased from RMB0.02 million in 2014 to RMB0.4 million in 2015 and to RMB6.4 million in the 2016 and increased from RMB0.4 million for the five months ended May 31, 2016 to RMB16.8 million for the five months ended May 31, 2017.

- As the Chinese economy entered a “new normal” stage characterized by continual adjustment of economic structure, reduction of excess capacity, and pursuit of moderate growth so as to sustain long-term development, we have utilized the flexibility of our trust business to timely adjust our strategies, increase our business in areas that may counteract the impact of downward economic cycles, and actively explore business opportunities that may emerge from such “new normal” stage of China’s economic development. As we noticed the slowdown of China’s economic growth has caused non-performing loans of commercial banks to increase, we recently started some trust business that focus on acquisition of non-performing loans from commercial banks and the subsequent disposal of such assets. As we expect infrastructure investments will be an important measure for the Chinese government to maintain stable economic growth during the “new normal” stage, we will continue to expand our infrastructure-related trust business and enhance our ability to defend against macroeconomic and market risks.
- We have actively developed our proprietary businesses and improved our strategic layout in the overall financial industry through equity investments in Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司), Minsheng Securities Co., Ltd (民生證券股份有限公司), Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司), Dezhou Bank Co., Ltd. (德州銀行股份有限公司), Shandong Howo Automotive Finance Co., Ltd. (山東豪沃汽車金融有限公司) and other financial institutions in China. As most financial sectors in China have their own licensing requirements, we believe our equity investments in these financial institutions have strategic value to the development of our core trust business.

As a result of the success of our flexible development strategies, we have achieved significant growth in our trust business. We have also established a large and high-quality client base through nearly 30 years of operation. As of May 31, 2017, we had provided financing services to approximately 2,100 counterparty clients, including approximately 250 real estate developers, approximately 50 local government financing platforms and controlled enterprises, and approximately 1,800 enterprises in various industries, with many of them being listed companies. As of May 31, 2017, we had 53,346 trustor client accounts, including 2,266 corporate and institutional investors and 51,080 HNWI. As of May 31, 2017, we had 4,682 trustor client accounts that each entrusted assets of over RMB10 million to us and 41,501 trustor client accounts that each entrusted assets of over RMB1 million to us, representing approximately 8.8% and 77.8% of our total number of trustor client accounts, respectively.

Regional advantages resulting from our base in Shandong and an expansive, nationwide operation.

We are based in Shandong, one of the wealthiest provinces in China. Shandong's GDP has consistently ranked among the top three in China for the past five years and its GDP reached approximately RMB6.7 trillion in 2016. Shandong has proactively taken measures to connect itself to regions subject to China's "The Belt and Road Initiative". In 2011, development of the Shandong Peninsula Blue Economic Zone became a national strategy and brought new development opportunities for Shandong province. Shandong is expected to continue to promote its regional economic development strategies and make Shandong a national center for innovation with international influence. Shandong also has a large number of major state-owned enterprises and has been accelerating the pace of reforming its state-owned enterprises in recent years. Many measures taken by Shandong to reform its state-owned enterprises have led the trends in China. We believe the rapid advancement of state-owned enterprise reform in Shandong as well as the abundance of state-owned enterprises in the province will provide us with many potential business opportunities.

The Shandong provincial government has also attached great importance to the development of Shandong's financial industry. In August 2013, the Shandong provincial government issued the Several Opinions on Accelerating the Financial Reform and Development of Shandong Province (山東省人民政府關於加快全省金融改革發展的若干意見) (the "Opinions") to promote the development of financial sector in Shandong and target to build a highly market-oriented financial system in Shandong that is complementary to the local economy. The Opinions also specifically stated that the Shandong provincial government would encourage our Company to expand the scope of our businesses, elevate our status in the industry and enhance our market influence.

Our existing shareholders are important players in the relevant industries in Shandong. Our Controlling Shareholder, Lucion Group, is owned by the Shandong provincial government and has been rated class A, the top tier of enterprises owned by the Shandong provincial government, in the annual reviews organized by Shandong SASAC for nine consecutive years. The Shandong provincial government has designated Lucion Group as one of the first batch of state-owned enterprises to participate in a pilot program that will transform them into state-owned capital investment and operation companies, and Lucion Group is expected to lead and promote Shandong's economic transformation and development through innovation. Lucion Group is one of the most important investment and financing platforms of the Shandong provincial government and holds investments in a wide variety of industries such as financial services, venture capital, culture and media, tourism, infrastructure, real estate, energy and technologies, and has achieved full coverage of finance, investment, industry and commerce. The strong background of our existing shareholders and their abundant resources and expansive business networks created significant synergies with our business and provided strong support for the development of our business.

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We have participated in many important projects in Shandong which helped us fulfill our social responsibilities and increased our market recognition. As the trustee of the Shandong Provincial Infrastructure Fund Trust, we participated in a large number of key infrastructure projects in Shandong such as thermal and nuclear power plants, airport and railways, and through our participation in these projects, we have established successful cooperative relationships with various local enterprises, financial institutions and government agencies in Shandong, which further helped us expand our business. As of May 31, 2017, we had cooperated with approximately 847 counterparty clients that were registered in Shandong, which accounted for approximately 40.4% of our total counterparty clients.

With the rapid development of Shandong's economy, the number of HNWIs in Shandong increased rapidly in recent years. The large number of HNWIs in Shandong has provided us a huge potential client base for the development of our trust business and, in particular, our personal wealth management and family trust businesses. While we have a national operation, a significant portion of our trustor clients have traditionally been from Shandong mainly as a result of our strong connections to the province. As of May 31, 2017, we had 17,348 trustor clients from Shandong, which accounted for 32.5% of our total trustor clients. We believe the continued increase in the number of HNWIs in Shandong will provide a solid potential client base for the future development of our trust business. In addition, the establishment of Qingdao Wealth Management Comprehensive Financial Service Reform Experimental Area (青島市財富管理金融綜合改革試驗區) is expected to promote the development of wealth management sector in Shandong and help us attract outstanding wealth management professionals from China and abroad, enhance our product design and service capabilities and further develop our wealth management-related trust business.

We are based in Shandong but have been conducting our business on a nation-wide basis to achieve the optimal utilization of resources across different regions. We are free to provide, and we have provided, financing and investment services to clients across China. We have been exploring and developing various business opportunities across China, seeking to take advantages of the comparative advantages of different regions, and growing our business on a national basis. To help us better conduct our business in different regions in China, we have established regional business units in Beijing, Qingdao, Shanghai, Xiamen, Nanjing, Changsha and Xi'an. As of May 31, 2017, our counterparty clients were located in a total of 31 provinces, municipalities and autonomous regions in China.

Outstanding product development capabilities that help us continuously improve our ability to provide comprehensive services.

Due to the unique advantage resulting from the ability to operate across different financial markets and sectors, trust companies have become the pioneer in financial product development in China. As a trust company with outstanding product development capability in the industry, we have attached great importance to product development, established a dedicated research and development team, and relied mainly on internal resources for our research and development efforts supplementing with external resources, where necessary. We believe in “research creating value” and, accordingly, our research efforts center around creating value for our clients, our Company and our shareholders. Our research and development activities focus on various subjects such as macroeconomic trends, industry development, business expansion, product design and management improvement.

Our research and development efforts had been quite fruitful in our history. Based on public news reports as well as our own research and knowledge of our industry, we believe we were among the earliest in China to invest in an electric power plant through BOT; and we were among the earliest to launch foreign exchange trust, structured securities investment trust and indirect investment trust that participates in over-the-counter markets in China.

We have engaged in continuous innovation and led the trust industry in China on several fronts.

- In March 2010, we and Shanghai Yicai Media Co., Ltd. (上海第一財經傳媒有限公司) jointly published the “Yicai • Shandong Trust China Sunshine Private Equity Fund Index (第一財經 • 山東信託中國陽光私募基金指數),” which tracks the overall investment performance of open-ended securities investment trusts managed by trust companies in China, timely and objectively records and reflects the returns and risks of sunshine private equity funds in China, and provides China’s sunshine private equity fund market an analytical tool for investment analysis and a basis for performance comparison. Since its first publication, this index has been adopted by various financial institutions such as commercial banks, private equity funds and securities firms as a reference data for comparison against mutual funds and major stock indexes.
- From June 13, 2012 to November 13, 2012, we cooperated with an internationally well-known Internet company, utilized its customer resources, online channels and established risk control system, and launched collective fund trusts in China’s trust industry that focused on acquiring beneficial rights to small loans granted to small and micro enterprises, which supported the growth of real economy in China and satisfied the financing needs of various micro enterprises.

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- We believe we are one of the earlier providers of family trust services among trust companies in China. In August 2014, we launched our first family trust product, the “Wealth Inheritance” series of property trusts (財富傳承系列財產信託計劃). In these family trusts, trustors can entrust various types of properties to us such as funds, real estate, securities, beneficial interests in insurance policies, precious metals, diamonds or artworks. For example, in October 2015, we established our first trust that accepted beneficial interest in a life insurance policy as the trust asset. The combination of trust and insurance allows such products to provide both the security function offered by insurance products and the flexibility in terms of benefits distribution offered by trust products and thereby enables us to tailor-make the products according to our clients’ demand and better satisfy their specific needs.
- We have designed trusts that acquire government platform companies’ accounts receivables from local governments. In addition, as the Chinese government is promoting public-private partnerships, or PPP, to engage private parties in the development of infrastructure projects, we are working on the design of new types of trusts that will allow our trustor clients to participate in such partnerships.
- We have a series of trust products that provide comprehensive services to listed companies and satisfy different needs of listed companies and their shareholders, management and employees. Our trust products can help shareholders of listed companies to obtain low-cost financings through pledge of their shares, help management of listed companies to increase their shareholdings and help employees to participate in share ownership of their companies.
- In February 2015, we established Acquisition Fund No. 1 Collective Fund Trust (併購基金1號集合資金信託) to serve the needs of a listed company seeking strategic acquisition opportunities, an investment firm specialized in acquisitions and our various trustor clients looking for new investment opportunities. This product provided leverage for the listed company’s strategic acquisitions and enabled our trustor clients to participate in such acquisitions. The listed company’s substantial experience in its industry, combined with the investment firm’s expertise, significantly increase the chance of success of the acquisitions and the listed status of the company provides a readily available exit for the investments. We are able to generate not only a stable income from trustee’s remuneration paid to us but also additional potential income from our proprietary investment in the equity portion of product and thereby help us diversify our income streams.
- We have also designed a variety of trust products to serve the financing needs of unlisted companies and especially SMEs such as trusts that focus on investing in valuable items, including diamonds or artworks, and trusts that focus on investing in equities traded in over-the-counter markets in China.

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Through continuous innovation, we have enhanced our product design and development capabilities as well as our ability to provide comprehensive financing and investment services to our clients. As some of our new products led the industry trends at the time, they also helped us enhance brand image, increase market awareness and gain market recognition.

Strong business management capabilities and comprehensive and effective internal control and risk management system.

Over the three decades of our business operation, the trust industry in China has experienced several major adjustments and we have successfully maintained a stable and prudent business operation throughout the period and achieved significant growth. This evidenced our professional business management skills and risk control capabilities. Our stable shareholder structure and employee team also laid a solid foundation for the stable development of our business. We routinely perform comprehensive assessment of our overall business operations and adopt qualitative and quantitative analytical measures to help us control our overall risks. While ensuring the effectiveness of our risk control measures, we are also able to maintain a highly efficient business operation through scientific design of our business flow and eliminating redundant procedures, and the efficiency of our business operation has been recognized by our business partners.

We have attached great importance to our risk management system, cultivated a corporate culture that emphasizes strict risk control during our decades of prudent business operation, and established a comprehensive and prudent risk management system, including mechanisms that ensure strict execution and monitoring of our various risk management measures. We believe our risk management system is industry leading.

Our integrated risk management organizational structure is included in every level of our corporate governance, including at the Shareholder, Board of Directors and senior management level. Our Board of Directors has three committees with risk management functions including the Strategies and Risk Management Committee, Business Decision Committee and Audit Committee. At management level, all of our functional departments bear risk management responsibilities during daily operation and a Trust Business Review Committee is established to coordinate their efforts. We have also appointed a Chief Risk Officer to lead the formulation and execution of our overall risk management strategies. For more details about our internal risk management structure and the respective responsibilities, please refer to “Risk Management — Our Risk Management Organizational Structure”.

Our risk management system is fully integrated into every aspects of our business operations. We have designed different risk control measures based on the risk profiles of our different types of business. For our collective trusts which we usually assume more responsibilities, we designed three levels of approval that involve all functional departments with risk management responsibilities, our senior management including our General Manager, Vice General Managers and Chief Risk Officer, and the Business

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Decision Committee of our Board of Directors. For our individual trusts, we designed a simpler approval process but still require approvals of Vice General Managers for each project. For our proprietary business, our Board of Directors formulate annual plans for the allocation of our proprietary assets and our various functional departments work together to ensure our proprietary assets are invested in a prudent and efficient manner in accordance with our annual proprietary assets allocation plans. We endeavor to continuously improve our business decision process and keep it efficient and transparent so that it is subject to supervisions from all relevant functional departments that are involved during the business operation.

We have implemented risk management measures in every step of our business operation. For example, we have different departments managing different risks in each of the six major stages of our trust operation from project initiation and due diligence to obtaining internal approvals, legal documentation, transfer of trust assets, trust management and information disclosure, as well as final distribution and liquidation. In addition, our Risk Control Department has professional teams that actively participate in project due diligence before the establishment of a trust and perform ex-post management and risk monitoring throughout the period in which the trust project is in existence. We have established a Real Estate Management Center within the Risk Control Department that helps us enhance our active management capability for real estate trusts. We have also established a Trust Business Ad-hoc Issue Coordination Working Group to help us formulate risk resolution plans and enhance our risk disposition capability. We believe our risk management system has reflected the core concept of “pre-transaction risk prevention, in-transaction risk monitoring, and post-transaction risk control”.

Experienced and innovation-minded senior management and a professional employee team.

Our senior management team, led by our Chairperson and General Manager, has rich experience in trust and related financial services industry. Our Chairperson, Ms. Wang Yingli, joined our company in 1992 and has over 26 years of working experience in the financial services industry including approximately 25 years of management experience at our company. Our General Manager, Mr. Wan Zhong, first joined our company in 1996 and has approximately 21 years of working experience in the financial services industry including 16 years of management experience at our company. Our senior management team has, on average, approximately 20 years of working experience in various positions at financial services entities, financial regulatory authority and universities. Relying on their vast experience in relevant industries, close working relationships with various government agencies and strong management skills, our senior and mid-level management is capable of identifying the development trends of the trust industry and led us successfully navigate through the ups and downs of the trust industry over the past decade. Our senior management is also highly innovation-minded and has driven the growth of our business and the expansion and evolvement of our product offerings through continuous renovations.

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We also have a team of well-educated, young and energetic professional employees. As of the Latest Practicable Date, 23.8% of our employees held bachelor's degrees and 71.3% of our employees held master's or doctoral degrees and above; and 72.8% of our employees aged between 25 and 40. We believe the demographics of our employees help us maintain a corporate culture that embraces innovations and make us more sensitive to market changes and more flexible in adapting to such changes.

We also attribute our success to our ability to attract, incentivize and retain experienced employees as well as to train them and enhance their expertise, and we believe our professional workforce has been highly engaged and productive. We have also adopted a market-oriented compensation system to attract external talent, encourage our employees to innovate, and proactively promote the development of our various business. In addition, we sponsor key employees to attend training programs at well-known institutions or universities in China and overseas. While our departmental heads have an average age of approximately 41, they have worked with us for an average of approximately 14 years and have developed their careers along with us. The sense of loyalty among our departmental heads has helped us maintain a stable management and employee team. Our stable management and employee team has laid a solid foundation for our future development.

OUR STRATEGIES

We intend to continue to strengthen our traditional business, enhance our active management capabilities, rapidly expand our trust business that provide asset management and wealth management services, capture new business opportunities through continuous innovation, and build up our brand image as a high-quality and trustworthy financial service provider in China.

Continue our business transformation and upgrade and elevate our ability to provide comprehensive financial services

Based on the status of our current business development, and as China's economic development has entered the "new normal" stage, we intend to take advantage of the changes and accelerate the transformation and upgrade of our existing business, explore potential business opportunities in new areas, elevate our active management capability for financing trusts and improve our service quality.

Strengthen traditional business and accelerate business upgrade

For our traditional business, we plan to further standardize our business operation, simplify business flow, increase operating efficiency and reduce operating costs. At the same time, we will accelerate the upgrade of our traditional business to utilize more of our active management capabilities. For real estate trusts, we plan to enhance our ability to self-manage the relevant real estate development projects through utilization of both internal and external resources, identify more business opportunities through acquisitions of relevant real estate projects at their early stage of developments or providing bridge financings at the end stage of their developments, and start cooperation with assets management companies to carry out real estate investment trust (REIT) business, in each case, elevating our product design and active management capabilities. We also plan to establish dedicated real estate subsidiaries, subject to regulatory authorities' approval, to further elevate our professional management and service capabilities. For industrial and commercial enterprise trusts, consistent with the ongoing supply-side reforms in China, we plan to focus on expanding our financing services for various emerging industries such as biopharmaceutical, new energy and new materials and support more innovation-oriented enterprises. For the provision of comprehensive financial services to our listed company clients, we plan to build up a full chain of trust products that can provide one-stop, comprehensive capital market-oriented financial services, focus our innovation efforts on trust products that may serve as acquisition funds, and provide more diversified products and services.

Explore new business opportunities and uncover hidden needs for our trust products

As China's economic development enters the "new normal" stage, we plan to explore more business opportunities in industries that are unlikely to be affected by, or may be developed as defensive measures against, downward economic trends. We plan to expand governmental platform and infrastructure trust business and participate in PPP projects through different channels. Through participation in PPP projects and regional development funds, we target to proactively establishment business relationships with more platform-type of clients that have stable cash flows to help us upgrade our business model. We will also try to establish more cooperative relationships with long-term, low-cost funding sources as well as social capital with strong performance capabilities to achieve mutual benefits. We were granted the qualification to act as the trustee for trusts designated for certain purposes (namely, to engage in assets securitization business) by the Shandong Office of CBRC in November 2016 and plan to design and launch assets securitization products to satisfy the different risk appetite of different investors. We plan to continue to explore business opportunities in the disposition of non-performing loans. We plan to actively participate in the reform of state-owned enterprises and take full advantage of the economic premium resulting from such reforms. We will accelerate the development of trust products that engage in new types of businesses such as mergers and acquisitions and reorganization of state-owned enterprises and employee share ownership programs. We also plan to accelerate our application for new qualifications that will allow us to carry out more innovative businesses.

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Enhance our wealth management capabilities and increase coverage of institutional and HNWI clients

We plan to further enhance our capital markets-related trust business and increase the core competitiveness of relevant trust products. We plan to continue to improve our self-management and professional management capabilities and gradually increase the weight of our trust business that focuses on assets management and allocation of entrusted assets into different assets classes on behalf of our trustor clients. We will actively promote our actively managed bond markets trust business. We will continue to enhance our trust business that focuses on the management of entrusted assets on behalf of the trustors and continue to enhance our wealth management capabilities to satisfy the needs of our clients and further improve our brand image in wealth management business. We plan to further diversify our product lines. While we will continue to offer traditional financing trusts offering expected fixed returns, we plan to increase the proportion of our trust products that invest in non-fixed return investment products or a combination of different types of investment products as well as open-ended trust products to satisfy the different wealth management needs of our clients and transform ourselves into a one-stop financial service platform. To that end, we plan to establish more professional product development and execution teams and enhance and expand our business relationships with large institutional clients and seek to establish more cooperative relationships with such clients.

While maintaining all of our existing channels for developing trustor clients, we will enhance our efforts in developing more trustor clients for our family trusts through our own resources. We will expand our professional team for such business and increase our participation and control over the design of the relevant trust products. We will make particular efforts in promoting our family trust business to our existing clients and achieve synergies between our family trust business and wealth management-related trust business. We target to make further achievement in this area through steady accumulation of our client resources and improvement to our business process.

We plan to further improve our own sales and marketing system. We plan to establish a dedicated wealth management subsidiary to improve our services and enhance our market expansion capabilities. We plan to transform from a product-centered sales model to client-centered sales model and shift the focus of our sales and marketing efforts from selling trust products to the provision of integrated wealth management plans for our clients. We plan to further improve the organizational structure for our sales and marketing efforts, expand our sales and marketing team and increase the proportion of professional wealth management consultants. Depending on market conditions, we may expand our sales network into other provinces and cities in China, improve our electronic sales channels and further improve our online trust business platform.

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Enhance our capital base, increase synergies between our proprietary business and trust business, and optimize our investments in other financial institutions

We plan to enhance our capital base and effectively use our proprietary funds to increase our brand awareness and market influence. Our proprietary business will continue to focus on providing support to the development of our core trust business. On the one hand, we will continue to increase the synergies between our proprietary business and trust business and use our proprietary funds to invest in our key trust products to support the development of our trust business and achieve relatively high investment return. On the other hand, we will continue to improve the management of our proprietary assets in order to achieve reasonable return while maintaining the safety of such assets. We will continue to enhance team building efforts for our proprietary business and set up separate and more professional teams for different types of proprietary business. We will also improve our internal management, control and compensation systems to better align relevant responsibilities with corresponding powers and rewards. We target to continuously improve the utilization efficiency of our proprietary funds.

As our capital base enhances, we plan to increase our equity investments in various financial institutions and build up an investment portfolio that covers all major types of financial institutions such as banks, insurance companies, securities firms and mutual funds. We target to make ourselves a comprehensive financial shareholding platform that enables us to benefit from the financial licenses held by these financial institutions and realize synergies between our business and their business. We also plan to use our proprietary funds to establish dedicated subsidiaries to enhance our ability to provide professional investment services and improve our profitability.

Establish international businesses at appropriate times to achieve synergy between domestic and international businesses

While all of our business operations are in China and most of our clients are based in China, many of our existing or potential clients, including our trustor clients and counterparty clients, are increasingly looking at opportunities in overseas markets. As China implements its “Go Global” strategy represented by “The Belt and Road Initiative”, and as Renminbi increasingly becomes an internationally recognized currency, we believe there will be abundant business opportunities for us arising from the interactions between the domestic and overseas markets in and outside of China. The expansion of our business into overseas markets will help us better serve the diversified wealth management needs of our family trust clients and HNWI clients and help our counterparty clients to obtain financings from overseas markets.

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We plan to commence the operation of Qualified Domestic Institutional Investor (QDII) and Qualified Domestic Investment Enterprise (QDIE) businesses as the entry point for the expansion of our international business and we are actively applying for the relevant business qualifications. We will also seek to obtain financial service licenses in selected overseas jurisdictions.

Through such international expansion, we plan to enhance our ability to manage overseas assets and allocation of our clients' assets into overseas markets, obtain access to overseas low-cost financing channels and achieve synergy between our domestic and international businesses so that we can provide one-stop, consolidated and improved services to our clients.

Further improve our risk management and internal control system

Establishing an all-round and refined risk management system is one of our key business development strategies. We seek to reinforce the sound growth of our business within the boundary of our risk management framework with the following measures,

- build a detail-oriented risk management system that covers our entire business segments, separates the investment and management of our trusts and strengthens the identification and monitoring of risks in key business processes and manage all types of risk exposure to us;
- strengthen our risk management capability in all steps of our business operation and optimize the synergy among our functional departments, senior management and our Board of Directors so as to improve the efficiency and quality of our risk management; and
- improve our IT infrastructure and establish a risks evaluating system with centralized operation, real-time monitoring, quantitative analysis and responsive actions to enhance our risk management and internal control capability.

Continue to implement our talent development strategy and establish partnership style relationship among our employees

We believe a key to our success is our team of professional employees. We will continue to implement our talent development strategy and target to cultivate partnership style relationship among our employees. To that end, we intend to take the following measures,

- continuously improve the overall quality and competitiveness of our employees and strengthen employee trainings to elevate their professional skills;

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- expand our research and development center, enhance our research and development efforts, cultivate more innovation-minded employees and enhance their innovation capabilities;
- recruit more talented professionals with special knowledge and experience in the relevant fields from China and overseas, especially talents in the new areas of our business; and
- cultivate a strong risk culture based on a balanced incentive system across our organization to improve our competitive edge and enhance the sense of responsibility, risk awareness and loyalty of our employees.

OUR BUSINESSES

Our business segments are (i) trust business and (ii) proprietary business. Trust business is our core business. As the trustee, we accept entrustment of funds and/or property from our trustor clients and manage such entrusted funds and property to satisfy our trustor clients' investment and wealth management needs as well as our counterparty clients' financing needs. Our proprietary business focuses on allocating our proprietary assets into different asset classes and investing in businesses with strategic value to our trust business in order to maintain and increase the value of our proprietary assets. The following table sets forth our segment income and its main components for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Trust business:					
Operating income	1,323,042	1,057,860	847,996	310,117	475,180
Segment income	<u>1,323,042</u>	<u>1,057,860</u>	<u>847,996</u>	<u>310,117</u>	<u>475,180</u>
Proprietary business:					
Operating income	443,135	727,842	479,385	67,447	179,005
Share of profit from investments accounted for using the equity method . .	94,605	175,336	138,248	54,910	60,471
Segment income	<u>537,740</u>	<u>903,178</u>	<u>617,633</u>	<u>122,357</u>	<u>239,476</u>

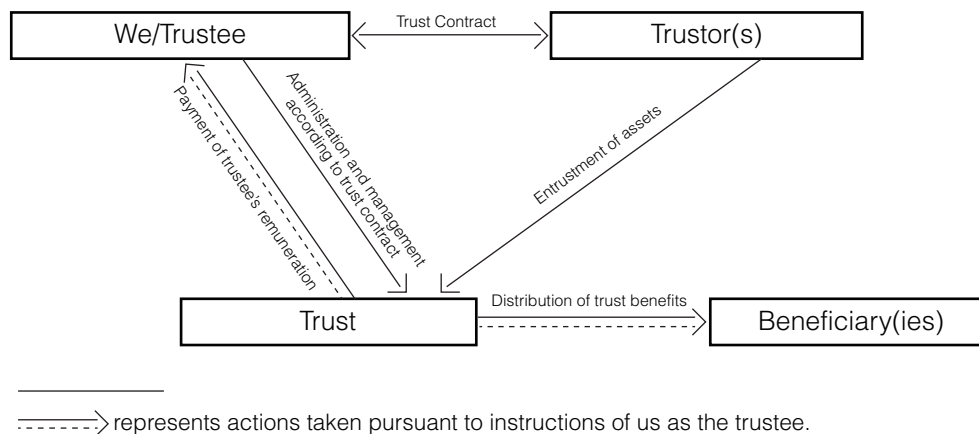
OUR TRUST BUSINESS

We offer and manage a broad range of trusts to satisfy the financing, investment and wealth management needs of our various types of clients. Our trustor clients entrust their funds and other properties to us pursuant to trust contracts, and we, as the trustee, put the entrusted assets into use and manage them pursuant to the trust contracts.

The PRC Trust Law provides the basic legal framework of all of our trusts, which are described in details below.

Basic Construct of Our Trusts

Under the PRC Trust Law, the basic construct of our trusts may be illustrated as follows:



Trust Contracts

Our trusts are established by written trust contracts between the trustor(s) and us. A trust contract sets forth the trust's purposes and delineates the rights and obligations of the three principal parties to the trust, which are (i) the trustor(s), (ii) us, as the trustee of the trust, and (iii) beneficiary(ies) of the trust.

Trust Assets

Under the PRC Trust Law, once the trustors lawfully entrust their assets to us as the trustee, such assets become assets of the trust, or trust assets. Trust assets can be funds, non-fund property or property rights, such as real property, securities and creditors' rights. Trust assets are separate from, and not part of, the assets of the trustors or us. As such, the trust assets will be treated separately in the event of the death, liquidation or dissolution of the trustors or trustee, and the trust assets are not subject to the claims of the trustors, their creditors or our creditors, unless otherwise required by law. We, as the trustee, are also prohibited from commingling trust assets with our own assets.

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Notwithstanding various risk mitigation and resolution measures we implement, trust assets under our management are subject to risks of devaluation or loss and beneficiaries of the trusts may not be able to receive favorable returns from our trust schemes. For example, a counterparty of our trust schemes may experience significant deterioration in its financial conditions or encounter liquidity issues and fails to fulfill its payment obligations to the trust. For another example, real estate trusts, which accounted for a significant portion of our financing trusts during the Track Record Period, are affected by many factors that are beyond our control and further stringent regulatory policies in China or extended implementation of the relevant policies, if any, could lead to deterioration in the liquidity of the real estate market, which may in turn, cause the decline in sales volume and prices of properties our trusts invest in, adversely affecting the real estate developers' or project companies' ability to repay financings from our trusts.

While under PRC laws and regulations we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our own failure to properly fulfill our duty as a trustee, our reputation may be damaged if beneficiaries of our trusts suffer losses and our trustor clients may lose confidence in us. Please refer to the risks relating to our business set out under the "Risk Factors," including but not limited to "Risk Factors — Risks Relating to Our Business and Industry — Our financing trusts have significant exposure in industries which could be adversely affected by downturns in the Chinese economy and any failure of our counterparty clients to fulfill their payment obligations to such trusts may materially and adversely affect our business and reputation" and "Risk Factors — Risks Relating to Our Business and Industry — Any failure to effectively monitor, mitigate, resolve and dispose of risks relating to investments made by our trusts may result in counterparty defaults and loss to beneficiaries of our trusts and thereby damage our reputation and materially and adversely affect our trust business."

Our Responsibilities and Compensation

We are required to duly administer the trusts, manage and dispose of trust assets and distribute the trust benefits to beneficiaries in accordance with the trust contracts. In return, we are entitled to management fees provided in the trust contracts, which we refer to as trustee's remuneration and will be paid out of the trust assets. All other expenses incurred in administration of the trusts and management of the trust assets will also be paid out of the trust assets.

Risk Allocation

As the trustee, we are required to act in the best interests of the beneficiaries, diligently and effectively manage the trust assets, and act honestly and with due care. We will be liable for any loss of trust assets if we dispose of the trust assets in violation of the purpose of the trust or do not properly fulfill our responsibilities under the trust contracts. However, we do not provide, and the PRC laws and regulations prohibit us from providing, any guarantee that the trust assets will not suffer a loss, nor will we promise any minimum

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return on the trust assets. Please refer to “Regulatory Overview — Regulations Governing Businesses Engaged by Trust Companies — Regulations Governing Trust Businesses Conducted by Trust Companies” for details.

In each of our trust contracts, we list out all main material risks relating to the trusts, such as legal and government policy risks, market risk, counterparties’ credit risk, investee companies’ business and financial risk, liquidity risk and risks from force majeure events, and the relevant responsibility allocation among all parties involved. We also include prominent statement to alert the trustors that all risks resulting from our management of the trust assets pursuant to the trust contract shall be assumed by the trust assets, and under the PRC Trust Law, our obligation to distribute trust benefits to beneficiaries is limited by the trust assets available. We also require the trustors to sign a separate written statement to confirm that they are fully aware of and understand the risks and expressly agree to assume the risks. For more details about the risk management procedures we adopt for trust establishment, please refer to “Risk Management — Risk Management in Our Trust Business — Trust Establishment”.

As such, under the PRC laws and regulations, we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee. During the Track Record Period and up to the Latest Practicable Date, we had not been penalized by any administrative authorities due to the breach of duty as a trustee, except as disclosed in “Business — Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”.

Different Forms of Our Trusts

We have established trusts in various legal forms permitted under the PRC Trust Law. The variety of these forms enables us to design trusts that are suitable to the various investment, financing and wealth management needs of our trustor clients. Our trusts may be divided into the following categories based on different criteria set forth below:

<u>Criteria</u>	<u>Types of Trusts</u>
Nature of entrusted assets	Fund trusts v. Property rights trusts
Number of trustors	Individual trusts v. Collective trusts
Whether beneficiary(ies) are also trustor(s)	Self-benefit trusts v. Third-party-benefit trusts
Trustee’s roles and responsibilities	Administrative management trusts v. Actively managed trusts

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Fund Trusts v. Property Rights Trusts

Based on nature of the entrusted assets, our trusts can be divided into (i) fund trusts, in which the trustors entrust their lawfully owned funds to us, and (ii) property rights trusts, in which the trustors entrust their property rights, such as real property, equity rights and creditors' rights, to us. During the Track Record Period, most of our trusts were fund trusts.

Property rights trusts are often individual trusts, which are tailor made to fit the trustor's specific needs with respect to the management and disposition of the entrusted properties and property rights. While fund trusts may also be individual trusts, a significant portion of our fund trusts are collective trusts, which are referred to as collective fund trusts and subject to special regulations. See "— Our Trust Business — Special Requirements Applicable to Collective Fund Trusts".

The following table sets forth the total number and AUM of our fund trusts and property rights trusts in existence as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
Fund trusts	989	310,356	773	225,623	787	239,516	853	245,976
Property rights trusts	21	16,633	12	15,127	9	15,121	9	8,523
Total	1,010	326,989	785	240,750	796	254,637	862	254,499

Individual Trusts v. Collective Trusts

Based on the number of trustors, our trusts can be divided into (i) individual trusts, which have only one trustor for each trust, and (ii) collective trusts, which have more than one trustor for each trust.

Individual trusts are based on one-on-one engagement by each client. As there is only one trustor, it is often tailored to fit the trustor's specific needs and preferences. We, as the trustee, separately and individually manage and dispose of the trust assets. As such, individual trusts tend to be more flexible and vary significantly from each other in terms of their purposes and allocation of responsibilities among different parties to the trusts. All of our property rights trusts are individual trusts.

Collective trusts, on the other hand, are often based on a plan offered by us to multiple trustors. We, as the trustee, manage and dispose of the assets entrusted by all trustors as a whole. Therefore, collective trusts are often designed to fit the common investment needs of a particular type of trustors.

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The following table sets forth the total number and AUM of our individual trusts and collective trusts in existence as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
Individual trusts	751	267,694	535	193,334	564	185,916	608	175,111
Collective trusts	259	59,295	250	47,416	232	68,721	254	79,388
Total	1,010	326,989	785	240,750	796	254,637	862	254,499

Self-Benefit Trusts v. Third-Party-Benefit Trusts

Depending on whether the trustors are also beneficiaries of the trusts, our trusts can be divided into (i) self-benefit trusts and (ii) third-party-benefit trusts. In self-benefit trusts, the trustors designate themselves as the beneficiaries. As such, self-benefit trusts mainly serve the trustors' investment or wealth management needs. In third-party-benefit trusts, the trustors designate third parties as the beneficiaries to enjoy the benefits of the entrusted assets. As such, third-party-benefit trusts are often used for wealth inheritance, wealth transfer or charitable purposes. During the Track Record Period, most of our trusts were self-benefit trusts.

Administrative Management Trusts v. Actively Managed Trusts

Our authority to manage and dispose of trust assets comes from the trustors' entrustment as provided in the trust contracts. While the authorities granted to us by the trustors vary significantly from one trust to another, we may classify our trusts into (i) administrative management trusts and (ii) actively managed trusts, based on the differences in our roles and responsibilities with respect to the management and disposition of trust assets.

- *Administrative Management Trusts*

In an administrative management trust, the trustors have discretion as to the use of the trust assets. They will find counterparties for the proposed trust, perform their own due diligence, select the assets or projects in which the trust assets will be invested in and take responsibility for project management after the trust establishment. The services we provide for this type of trusts are limited to administration of the trusts, including management of the special accounts, providing necessary paperwork when required by the trustor clients to facilitate their management of the trust assets, and allocation of the trust assets after liquidation. All investment decisions with respect to the trust assets are made by the trustors and we manage and dispose of the trust assets according to specific instructions of the trustors. As our involvement is limited in administrative management trusts to following the instructions of the trustors, our responsibilities are limited accordingly and the remuneration rates we charge for such trusts are generally lower than that of actively managed trusts.

- *Actively Managed Trusts*

In actively managed trusts, we are responsible for or participate in the selection of assets or projects in which the trust assets will be invested in, and we will perform our own due diligence on the assets or projects as well as the counterparties that hold the assets or projects. In addition to providing administrative services for the trusts, we are also actively involved in the ongoing monitoring and disposition of the trust assets. Through trust contracts, the trustors grant us varying degrees of authority with respect to management and disposition of the trust assets that require us to exercise our judgment and discretion. Examples of such authority include determining the specific assets to be held by the trusts, taking active measures to monitor and supervise the operation of the relevant projects, assets or counterparties, disposing of certain trust assets and exercising our rights to the trust assets as the trustee. While most trust contracts will specify the parameters of our authority, such parameters could be wide and flexible. In some of our recent actively managed trusts, the trustors even granted us full authority in managing the funds they entrusted to us, which allows us to make whatever investment we think would be appropriate to fit the trustors' investment goals. We may from time to time engage third party investment advisors to provide investment advice and suggestions for our reference and consideration. Given the higher level of management services offered, we generally charge relatively higher remuneration rates for actively managed trusts than that of administrative management trusts.

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The following table sets forth certain key attributes of administrative management trusts, financing trusts and investment trusts:

	Administrative Management Trusts	Actively Managed Trusts	
		Financing Trusts	Investment Trusts
Trustor client	Mainly corporate and institutional clients	Corporate and institutional clients and HNWI's	
Party who selects the assets/projects in which the trust assets will be invested	Trustor client	Trustee (the Company)	
Typical underlying assets of the trust	Loans, listed equity and debt securities, private equity, securities investment funds, asset management schemes, limited partnership interests, trust schemes, monetary assets	Loans, monetary assets	Listed equity and debt securities, private equity, securities investment funds, asset management schemes, limited partnership interests, trust schemes, monetary assets
Source of assets/projects in which the trust assets will be invested	Procured by the trustor client	Procured by the trustee (the Company)	
Counterparties	Borrower of the loan granted by the trust or entity providing the financial products in which the trust assets are invested	Borrower of the loan granted by the trust or entity providing the monetary assets	Entity providing the financial products in which the trust assets are invested

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	Administrative Management Trusts	Actively Managed Trusts	
		Financing Trusts	Investment Trusts
Due diligence performed by the trustee (our Company)	The legality of entrusted funds or assets, and the legality of trust purpose	The legality of entrusted funds, the legality of the trust purpose, and the proposed counterparty and project/assets	The legality of entrusted funds, the legality of the trust purpose, the proposed project/assets, the structural design of the relevant asset management schemes or limited partnerships, the experience and investment capability and track record of the counterparty (such as asset management companies or the general partner of limited partnership)
Due diligence performed by the trustor client	The proposed counterparty and project/assets	Trustor clients may or may not perform their own due diligence depending on their internal requirement	
Basis of trustee's remuneration ⁽¹⁾	Trust AUM upon entrustment of the trust assets or a fixed amount	Trust AUM upon entrustment of the trust assets, a fixed amount or, in the case of certain investment trusts, certain percentage of the investment return on the trust assets	

Note:

- (1) We determine our trustee's remuneration by referring to the prevailing level of remuneration charged by our competitors for similar products, as well as various factors, including the estimated investment return, the scope of our services, managerial effort and resources we expect to devote in such trust. Our trustee remuneration for administrative management trusts, actively managed financing trusts and actively managed investment trusts are primarily determined as a certain percentage of trust AUM upon entrustment of trust assets. Under certain circumstances where the trust AUM is relatively small or subject to frequent changes due to subscription or redemption by trustor clients, our trustee remuneration can be determined as a fixed amount. For a small number of our actively managed investment trusts, floating remuneration linked to investment return is adopted to reflect the managerial effort and resources we expect to devote in such trusts. Depending on our negotiation with trustor clients on a case-by-case basis, our trustee remuneration can either be (i) primarily determined as a certain percentage of trust AUM upon entrustment of trust assets, supplemented by a portion of floating remuneration which is linked to investment return; or (ii) primarily floating remuneration which is linked to investment return as well as the scope of our services, managerial effort and resources we expect to devote in such trust. In case of any negative investment return incurred by our actively managed trusts during any particular period, pursuant to the terms of the trust contracts, we are generally still entitled to receive, if any, the fixed trustee's remuneration calculated as a percentage of certain percentage of trust AUM upon entrustment, but will not collect the floating remuneration which is linked to investment return. We believe our basis of determining the trustee's remuneration is generally in line with market practice for similar products. We receive our trustee's remuneration pursuant to the detailed contract terms of each trusts, typically on a quarterly, semi-annual or annual basis during the term of the trusts and/or upon the liquidation of the relevant trusts.

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The following table sets forth a breakdown of each type of our trusts in terms of the basis of trustee's remuneration.

For financing trusts:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
A certain percentage of trust AUM	106	25,880	52	16,877	83	33,244	112	50,374
A certain percentage of trust AUM with floating remuneration	11	1,802	2	120	3	769	3	769
Floating remuneration	1	75	1	50	1	50	1	50
Fixed amount with floating remuneration	1	200	–	–	–	–	–	–
Total	119	27,957	55	17,047	87	34,063	116	51,193

For investment trusts:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
A certain percentage of trust AUM	99	20,610	170	20,564	168	23,515	207	20,864
A fixed amount	7	538	8	863	7	834	7	827
Certain percentage of trust AUM with floating remuneration	8	1,332	10	1,042	7	1,087	6	934
Floating remuneration	2	50	4	159	4	2,473	4	6,259
Total	116	22,530	192	22,628	186	27,909	224	28,884

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For administrative management trusts:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
A certain percentage of trust AUM	726	271,394	499	197,807	507	190,942	509	172,044
A fixed amount	14	2,293	20	2,170	13	1,396	12	2,376
A certain percentage of AUM with floating remuneration	34	2,813	18	1,096	1	180	–	–
Floating remuneration	1	2	1	2	2	147	1	2
Total	775	276,502	538	201,075	523	192,665	522	174,422

The following table sets forth the total number and AUM of our administrative management trusts and actively managed trusts in existence as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
Administrative management trusts	775	276,502	538	201,075	523	192,665	522	174,422
Actively managed trusts	235	50,487	247	39,675	273	61,972	340	80,077
Total	1,010	326,989	785	240,750	796	254,637	862	254,499

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The following table sets forth the income generated from our administrative management trusts and actively managed trusts in absolute amount and as percentage of our total income from trust business for the periods indicated.

	Year ended December 31,						Five months ended May 31,			
	2014		2015		2016		2016		2017	
	Income	%	Income	%	Income	%	Income	%	Income	%
	(Income: in millions of RMB)									
Administrative management trusts	678	52.8	540	51.3	373	45.0	148	47.9	150	31.8
Actively managed trusts	607	47.2	512	48.7	455	55.0	161	52.1	323	68.2
Total	1,285	100.0	1,052	100.0	828	100.0	309	100.0	473	100.0

Special Requirements Applicable to Collective Fund Trusts

The PRC government has adopted special regulations for collective fund trusts and imposed the following requirements.

- *Trustors*

Trustors of collective fund trusts must be qualified investors. Pursuant to the special regulations for collective fund trusts, a qualified investor is defined as (i) a natural person, legal entity and other organization that invests at least RMB1 million in a trust, or (ii) a natural person that has personal or family financial assets of more than RMB1 million at the time of subscription, or (iii) a natural person whose annual personal income exceeds RMB200,000 in each of the past three years, or total annual income of the individual and his/her spouse exceeds RMB300,000 in each of the past three years. To ensure that all trustors of our collective fund trusts are qualified investors, we would require the trustors to provide proof that their assets or income have met these thresholds unless their investments in our collective fund trusts have already reached RMB1 million. We adopt comprehensive due diligence procedures in confirming and verifying the qualification of our potential investors, please refer to “Risk Management — Risk Management in Our Trust Business — Project Initiation and Due Diligence” for more details.

In addition, pursuant to the special regulations for collective fund trusts, each of our collective fund trust may have no more than 50 trustors that are natural persons (excluding natural persons with a single entrustment of more than RMB3 million in the trust).

- *Beneficiaries*

All collective fund trusts must be self-benefit trusts, which means the trustors themselves should be the only beneficiaries of the trusts.

The beneficial right of collective fund trusts are divided into trust units and each beneficiary hold certain number of the trust units which represent their share of the entitlement to total benefits from the trust.

Beneficiaries of the trust can exercise certain rights collectively through beneficiaries' general meetings, including terminating prior to the expiration of the trusts or extending the terms of the trusts, changing the trustee, trustee's remuneration or methods of using the trust assets, and other matters specified in the trust contracts.

- *Promotion of the Trusts*

We, as the trustee, are required to provide detailed disclosure documents when promoting our collective fund trusts to investors. The disclosure documents should explicitly state the risk profile of the trusts and fully disclose all risks and risk allocations among the trustors, beneficiaries and us. We are not allowed to use any misleading statement that may affect investors' independent assessment of the investment risks relating to the trusts. In particular, we are prohibited from promising in any manner that the entrusted funds will not suffer any loss or promising any minimum return on the entrusted funds.

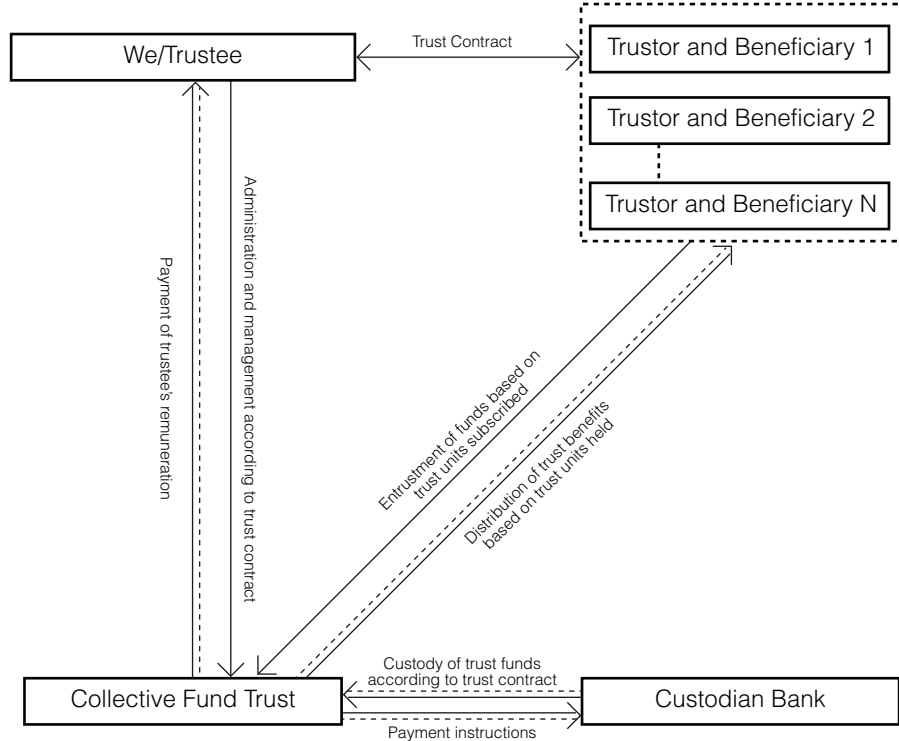
We are not allowed to conduct public marketing or publicity activities when promoting our trusts. While we may engage other financial institutions to help us promote our trusts, we cannot engage non-financial institutions for such purpose. Please refer to "Risk Management — Risk Management in Our Trust Business — Project Initiation and Due Diligence" for more details about our internal policies and procedures regarding the promotion of our trusts.

- *Custody of Trust Funds*

We, as the trustee, are required to engage a commercial bank to act as the custodian of the trusted funds. Before we use any trust funds, we are required to submit to the custodian bank a written statement of the proposed use of the funds and the custodian bank will ensure that the proposed use conforms to the relevant trust contract.

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The following chart illustrates the typical construct of our collective fund trusts,



—————> represents actions taken pursuant to instructions of us as the trustee.
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Major Terms of Our Trust Contracts

Our trust contracts are entered into between us as the trustee and our trustor clients. Our trust contracts usually set forth the following major terms:

(i) purpose of the trust

Our trust contracts set forth the purpose of the trust in the beginning of the contracts, such as to provide financing to certain parties or to invest in the equity interest of certain companies.

(ii) basic information of the trust

Our trust contracts set forth the information of relevant parties, including the trustor, trustee, beneficiary and custodian (if any), as well as the term and the proposed AUM of the trust.

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(iii) specific proposed use of the trust assets and certain restrictions

The specific proposed use of the trust assets and restrictions usually reflects our contracts with the counterparties. For example, in the financing trusts, the detailed information of the counterparty, the project and the guarantor are provided; while in the investment trusts such as indirect investment trusts, the shareholding information of the target company and the exit mechanisms is provided. Common restrictions usually include the limit on the trading between trustee's proprietary assets and the trust assets.

(iv) establishment of the trust

Our trust contracts would specify certain matters to be completed before establishment of the trust, such as the signing of the trust contract and the entrustment of the trust assets.

(v) management and custodian of trust assets

Our trust contracts would specify the management as well as the custodian (if any) of trust assets, strictly following the rule of separating the trust assets from trustee's proprietary assets. The trustor has the right to inspect the accounting information and other documents relating to the use of trust assets any time during the term of the trust. An independent trust account should be opened in the custodian bank for the management purpose of the trust assets.

(vi) trustee's remuneration, other fee arrangements and tax

The trustee's remuneration we receive is calculated based on the different roles we take on in each trust, usually as a percentage of the trust AUM. Our trust contracts also include other fee arrangements such as the custodian fee, and related tax arrangements. Our average actual trustee's remuneration rate (annualized) for administrative management trusts was 0.26%, 0.23%, 0.19%, 0.18% and 0.2% in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively. Our average actual trustee's remuneration rate (annualized) for actively managed trusts was 1.23%, 1.14%, 0.90%, 0.92% and 1.09% in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

(vii) calculation and distribution of the trust benefits

Detailed calculation and distribution of the trust benefits is provided in the contracts, specifying that the payment of tax and relevant fees for the trusts should be prioritized.

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(viii) termination of trusts

Our trust contracts provide certain conditions under which the trusts may be terminated prior to the expiration of their original terms, or extended for a certain period. During the Track Record Period and up to the Latest Practicable Date, our trusts generally had a term within two years and certain of our trusts had an indefinite term, such as family trusts. See “— Our Trust Business — Terms and Termination of Trusts”.

(ix) liquidation of trusts

Upon completion of all distribution to beneficiaries, the trust is liquidated and a written liquidation report must be delivered to the beneficiary within the period required by applicable laws and regulations.

(x) rights and obligations of the trustor, trustee and beneficiary

Rights and obligations of each party to the trusts are provided in our trust contracts. The trustor has the right to access the information relating to the administration and disposition of the trust assets, and to remove the trustee if there is gross negligence in management and disposition of the trust assets. The trustor shall be provided access to account information of the trust and other documents relating to the trusts. The trustor may not transfer the trust assets once the trust is established. As the trustee, we should scrupulously perform our duties as specified in our trust contracts, and fulfill our obligations of honesty, good faith, prudence and effective management and for the best interests of the beneficiaries. We are obligated to keep separate accounts for each of our trusts, and may not turn the trust assets to our proprietary assets. All the information of the trusts and our trustor clients must be kept safe and confidential.

(xi) disclosure of risk factors and allocation of risk

Our trust contracts set forth detailed risks that the trustor client is exposed to, including market risk, credit risk, liquidity risk, operational risk and other risks. To decrease the risk that the trustor client is exposed to, certain risk management measures are also provided in the trust contracts. We are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee. Similar statement is also set forth on the cover of each of our trust contracts to remind the trustor clients of the risks they are exposed to.

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(xii) other provisions

Besides, our trust contracts also provide certain conditions and procedures for the change of the trustee, transfer and inheritance of the beneficial interest in the trust, and breach of contract and dispute resolution.

There are some clauses in our collective fund trust contracts that are designed in accordance with specific requirements set out in special regulations for this type of trusts, mainly including the following:

(i) subscription details

Our trust contracts would provide the time of subscription and minimum subscription threshold. It was specifically required in the trust contracts that the trustor must be a “qualified investor,” and that the beneficiary must be the trustor.

(ii) promotion of the trust

Our trust contracts set forth the promotion period of the collective fund trusts, and certain criteria in terms of subscription for the trust to be established. If such criteria are not met at the expiration of the promotion period, the entrusted funds would be returned to the investors within 30 days since the expiration of the promotion period.

(iii) subscription and redemption details for open-ended securities investment trusts

For open-ended trusts, our trust contracts would specify the subscription threshold, redemption period and other related procedures for the subscription and redemption.

(iv) convening of beneficiaries’ general meetings

Our trust contracts would specify certain matters that require the convening of beneficiaries’ general meetings, and that written proposal should be submitted to the trustee if any beneficiary proposes to convene a meeting. Appropriate notice should be given to the beneficiaries if the trustee considers it necessary for the beneficiaries’ general meeting to be convened. Details relating to voting procedure and the validity of resolutions are also provided in the trust contracts.

Our Trust Product Lines

Utilizing the flexibility of trust arrangements under PRC laws, our trust license and our strong active management capabilities, we have been continuously developing trust products with new and different structure and new investment approaches to capture market opportunities emerging at different times and satisfy the changing needs of our clients.

Our trust products may be broadly categorized into actively managed trusts and administrative management trusts. Our clients utilize our administrative management trusts mainly because of the wide scope of our trust license and the high quality of our trust administration services. The value proposition of our actively managed trusts, however, goes beyond that of our administrative management trusts and extends to our ability to design and offer trust products and actively manage trust assets for our clients to achieve their financing and investment goals.

While all of our trusts serve as a bridge to connect the financing needs of our counterparty clients and the investment needs of our trustor clients, some of our actively managed trusts focus on proactively satisfying the financing needs of our counterparty clients and are therefore referred to as financing trusts, while other actively managed trusts focus on satisfying the investment needs of our trustor clients and are therefore referred to as investment trusts.

Through almost 30 years of business operation, we have accumulated significant experience and know-how in providing a variety of financial services to satisfy the financing and investment needs of different clients in China. As we continuously grow our active management capabilities, we expect the number and AUM of our actively managed trusts and their contribution to our income from trust business will continue to grow in absolute amount and as a percentage of our total trusts in the foreseeable future.

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The following table sets forth the total number and AUM for each type of our actively managed trusts and administrative management trusts in existence as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
Actively managed trusts	235	50,487	247	39,675	273	61,972	340	80,077
Financing trusts	119	27,957	55	17,047	87	34,063	116	51,193
<i>Real estate trusts</i>	27	9,751	18	10,044	43	13,569	71	27,949
<i>Governmental platform and infrastructure trusts</i>	21	7,785	6	1,220	9	3,756	8	3,676
<i>Industrial and commercial enterprises trusts</i>	71	10,421	31	5,783	35	16,738	37	19,568
Investment trusts	116	22,530	192	22,628	186	27,909	224	28,884
<i>Securities investment trusts</i>	54	3,631	119	13,359	81	9,968	78	10,099
<i>Indirect investment trusts</i>	37	17,726	38	8,062	29	9,902	23	4,837
<i>Family and discretionary wealth management trusts</i>	6	60	19	495	53	2,920	95	3,899
<i>Other trusts</i>	19	1,113	16	712	23	5,119	28	10,049
Administrative management trusts	775	276,502	538	201,075	523	192,665	522	174,422
Total	1,010	326,989	785	240,750	796	254,637	862	254,499

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The following table sets forth the income generated from each type of our actively managed trusts and administrative management trusts in absolute amount and as percentage of our total income from trust business for the periods indicated.

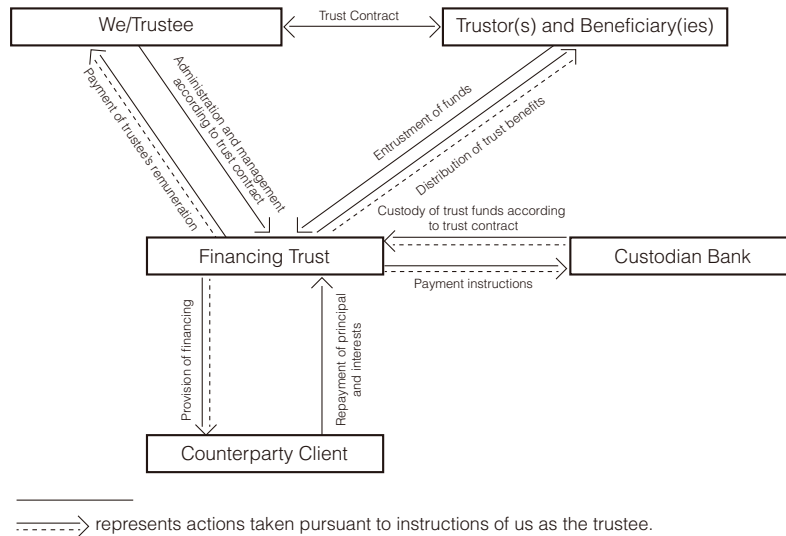
	Year ended December 31,						Five months ended May 31,			
	2014		2015		2016		2016		2017	
	Income	%	Income	%	Income	%	Income	%	Income	%
(Income: in millions of RMB)										
Actively managed trusts	607	47.2	512	48.7	455	55.0	161	52.1	323	68.2
Financing trusts	420	32.7	342	32.5	260	31.4	77	24.9	229	48.3
Real estate trusts	110	8.6	150	14.3	95	11.5	37	12.0	127	26.9
Governmental platform and infrastructure trusts	89	6.9	74	7.1	37	4.4	12	3.9	16	3.3
Industrial and commercial enterprises trusts	221	17.2	118	11.1	128	15.5	28	9.0	86	18.1
Investment trusts	187	14.5	170	16.1	195	23.6	84	27.2	94	19.9
Securities investment trusts	24	1.9	42	4.0	70	8.5	47	15.2	22	4.6
Indirect investment trusts	154	12.0	121	11.5	110	13.3	35	11.3	46	9.7
Family and discretionary wealth management trusts ⁽¹⁾	–	–	–	–	6	0.7	–	–	17	3.6
Other trusts	9	0.6	7	0.6	9	1.1	2	0.7	9	2.0
Administrative management trusts	678	52.8	540	51.3	373	45.0	148	47.9	150	31.8
Total	1,285	100.0	1,052	100.0	828	100.0	309	100.0	473	100.0

Note:

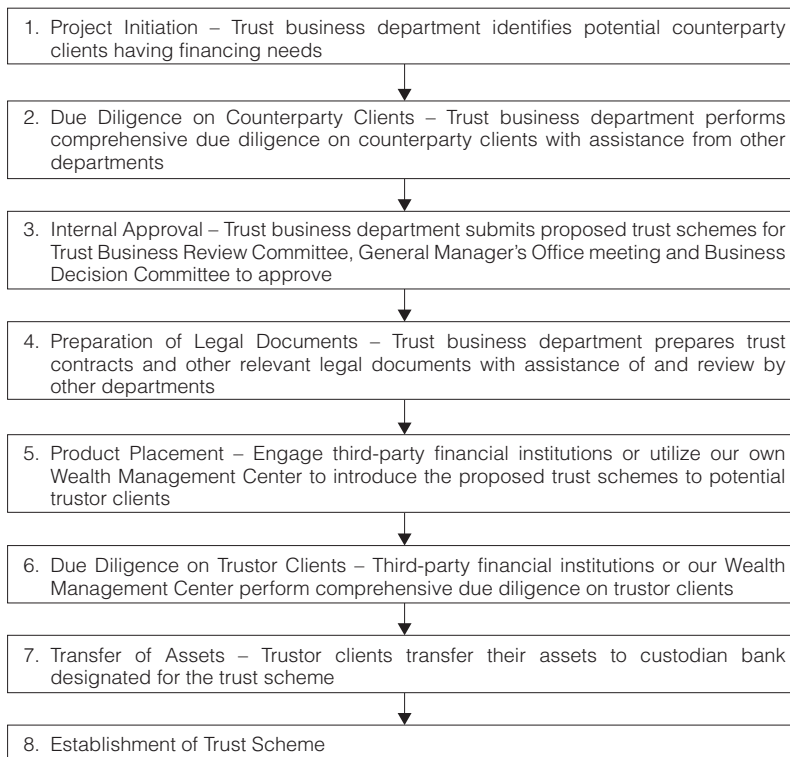
(1) Income from our family and discretionary wealth management trusts amounted to RMB0.02 million, RMB0.4 million, RMB6.4 million, RMB0.4 million and RMB16.8 million in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Financing Trusts

Through our financing trusts, we essentially provide private placement investment banking services to various types of enterprises and institutions in China, and we are able to offer flexible and diversified financing plans. The following chart illustrates the typical construct of our financing trusts:



The following chart illustrates the key steps involved in setting up a financing trust.



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For more information on the process of initiation and management of our financing trusts, please refer to “Risk Management — Risk Management in Our Trust Business”.

- *Real Estate Trusts*

Our real estate trusts focus on arranging debt or equity financing for real estate development projects located in China and undertaken by top Chinese real estate developers. In December 2002, we established Qingdao Real Estate Development Loan Collective Fund Trust, which we believe was the first real estate collective fund trust in Shandong province. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 27, 18, 43 and 71 real estate trusts in existence with trust AUM of RMB9,751 million, RMB10,044 million, RMB13,569 million and RMB27,949 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from real estate trusts was RMB109.6 million, RMB149.5 million, RMB94.8 million, RMB36.6 million and RMB127.2 million, respectively.

- o Project Selection

We focus on real estate development projects located in first-tier cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, selected second-tier cities and regional center cities in China that can radiate their influence to surrounding areas and attract various resources from surrounding areas. For example, relying on our familiarity with the economic environment in Shandong province, our real estate trusts provide financings to many projects in Jinan and Qingdao, two second-tier cities in Shandong province, and we continuously enhance our active management capabilities to effectively control risk, achieve relatively high investment returns and create more value for our trustor clients as well as our shareholders. As we enhanced our active management capabilities, we were able to invest in more real estate development projects with smaller average investment amounts and, as a result, we significantly increased the number of our real estate trusts and also increased their aggregate AUM from 2015 to 2016. We also give priority to real estate development projects undertaken by top Chinese real estate developers and developers backed by large state-owned enterprises in China.

- o Form of Investments

Our real estate trusts provide financings to real estate developers in different forms including direct loans and other forms of financings that involve equity investments.

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Direct loans are the most basic form of financings that our real estate trusts provide to real estate developers. In this form of financing, our real estate trust lends its trust funds directly to a real estate developer for use in a particular real estate development project. The real estate developer, as the borrower, will be required to pay periodic interests to the real estate trust and repay full amount of the principal of the loan before the trust's term expires. Our real estate trust's distributions to its beneficiaries come from interests and principal repayment by the real estate developer.

In addition to pure debt financings, our real estate trusts may also provide financings that involve certain equity investments. The equity investments will generally allow our real estate trusts to have more influence over the counterparties' business operation and their management of the relevant real estate development projects and may potentially increase the investment returns of our real estate trusts.

To improve our influence over and monitoring of a real estate project, our real estate trust may also use a portion of its entrusted funds to make a direct equity investment in the real estate developer and thereby become its shareholder. To better support its development, our real estate trust as the shareholder may also extend loans to the real estate developer. Our real estate trust may agree to sell the equity interest back to the real estate developer or its designated party or may continue to hold such equity interest to enjoy potential appreciation in its value. Our real estate trust's distributions to its beneficiaries will come from principal and interests payments on the shareholder loan by the real estate developer and proceeds from final disposition of the equity interest in the real estate developer.

- *Governmental Platform and Infrastructure Trusts*

Our governmental platform and infrastructure trusts focus on arranging debt financing for infrastructure development projects located in China undertaken by local governments or companies that serve as their financing platforms. As of December 31, 2014, 2015, 2016 and May 31, 2017 we had 21, 6, 9 and 8 governmental platform and infrastructure trusts in existence with trust AUM of RMB7,785 million, RMB1,220 million, RMB3,756 million and RMB3,676 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from governmental platform and infrastructure trusts was RMB89.6 million, RMB73.5 million, RMB36.9 million, RMB11.7 million and RMB15.7 million, respectively.

- o Project Selection

We focus on the creditworthiness and financial condition of local governments when selecting infrastructure projects for our trusts. We normally only consider infrastructure projects undertaken by provincial governments or by local governments of prefectural-level cities, provincial or national economic development zones or high-ranking counties (in terms of GDP) in China. We may also consider projects located in counties and districts that do not satisfy the above conditions but are located in the relatively developed regions and the relevant local government has an annual revenue of not less than RMB2 billion.

- o Form of Investments

Our governmental platform and infrastructure trusts provide debt financing in the form of loans to companies established by local governments as their financing platforms. In our trust contracts with this type of trustors, we as the trustee are only allowed to invest the trust assets into the infrastructure development projects specified in the trust contracts. Accordingly, in our contracts with the counterparties, we will require them to apply the financing to the projects specified in the contracts. Our trusts also provide financing to such counterparties through purchase of their accounts receivables from local governments, and as a result, the trust assets held by these trusts are accounts receivables payable by local governments, which have better creditworthiness than the platform companies. Most of these receivables have a term of less than three years and would match the term of our governmental platform and infrastructure trusts holding the receivables.

We are exploring new form of investment for our governmental platform and infrastructure trusts. For example, as the Chinese government is promoting public-private partnerships, or PPP, where private parties can participate in the development of public infrastructure projects, we are studying the possibility of new trusts that will allow our trustor clients to participate in such partnerships through financing to public/government side or the private company side of the partnership.

- *Industrial and Commercial Enterprises Trusts*

Our industrial and commercial enterprises trusts focus on arranging various forms of financings for companies in the general industrial and commercial sectors in China to satisfy their working capital needs. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 71, 31, 35 and 37 industrial and commercial enterprises trusts in existence with trust AUM of RMB10,421 million, RMB5,783 million, RMB16,738 million and RMB19,568 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income

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from industrial and commercial enterprises trusts was RMB220.8 million, RMB118.6 million, RMB128.6 million, RMB28.3 million and RMB85.6 million, respectively.

o Enterprise Selection

We have traditionally focused on key industries that form the foundation of China's fast growing economy, such as public services, utilities and construction, manufacturing and other industries. The following table sets the breakdown of the total number and AUM of our industrial and commercial enterprises trusts in existence by industry as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM	Number	AUM	Number	AUM	Number	AUM
	(AUM: in millions of RMB)							
Public services, utilities and construction	19	1,657	9	1,731	14	7,556	13	7,590
Manufacturing	27	2,192	9	641	6	363	6	853
Farming, forestry, herding, fishing and mining	8	1,545	5	560	5	966	4	876
Other private sectors	17	5,027	8	2,851	10	7,853	14	10,249
Total	71	10,421	31	5,783	35	16,738	37	19,568

Our industrial and commercial enterprises trusts have also provided financings to many small and medium enterprises, or SMEs, in China that we believe have a healthy business operation and strong financial condition. In June 2011, we established Yuan Tu No. 1 Collective Fund Trust Scheme (遠圖一號集合資金信託計劃), which we believe was the first collective trust scheme that focused on providing financing to SMEs in Shandong province based on public news reports as well as our own research and knowledge of our industry.

The slowdown of the Chinese economy since 2014 imposed significant pressure on industrial and commercial enterprises in China, which caused many of them to reduce their production capacity as well as financing need, and the financial conditions of many industrial and commercial enterprises deteriorated. The number of industrial and commercial enterprises with a healthy business operation, strong financial condition and financing needs decreased significantly, which led to increased competition for their financing needs and significant reduction in their financing costs as well as their demand for non-bank financing solutions. As a result, the number and volume of our industrial and commercial enterprises trusts decreased from

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2014 to 2015. In 2016, we developed several counterparty clients that are large conglomerates with multiple businesses in different industries and we established several financing trusts with relatively large AUMs to satisfy the diversified financing needs of these conglomerates, and as a result, the number and AUM of our industrial and commercial enterprises trusts increased significantly from 2015 to 2016.

Our industrial and commercial enterprises trusts also serve the financing needs of emerging growth companies. In June 2012, we established Ali Star No. 1 Collective Fund Trust (阿里星1號集合資金信託計劃), which focused on providing small loans to small and micro enterprises through cooperation with an internationally well-known Internet company. As the Chinese government has recently adopted various measures to encourage business start-ups and innovations, we believe many of these emerging growth companies will thrive and offer great opportunities for our trusts.

o Form of Investments

Our trusts have traditionally provided a variety of financings to industrial and commercial enterprises such as loans, purchase of accounts receivables, equity investments, investment in property interests, financial leasing or a combination of any of these financing methods. We normally require shareholders or other affiliates of the borrower or a professional guarantee company to provide guarantee for our debt financings to industrial and commercial enterprises. When the trusts provide financings for investment in industrial and commercial enterprises, we also require the borrower to provide a pledge of the assets to secure the loan. We also accept security interest in other type of assets held by the borrower. For example, some of our industrial and commercial enterprises counterparties hold unlisted equity interests in financial institutions in China and we would accept pledge of such equity interests as security for financings by our trusts. Our trusts also provide financings secured by equity securities held by such enterprises in the form of transfer and repurchase of the beneficial interests in stocks. In our trust contracts with this type of trustors, we as the trustee are allowed to use the trust assets to provide loans or other types of financings to the specific industrial and commercial enterprises specified in the contracts. In our contracts with such enterprise, we generally require them to use the proceeds only for their liquidity and working capital purposes.

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All of the financing trusts we established are fund trusts as their purpose is to provide financing. To raise funds for these trusts, we sell trust units in the trusts to qualified investors, which are HNWI and corporations or institutions, through our own wealth management center and/or third parties such as banks. For additional information on sales of our trusts, see “— Our Clients — Client Development and Product Placement”.

We monitor the risk profile of our financing trusts through analysis of their various profiles as necessary and appropriate.

The following table sets forth the breakdown of our financing trusts in terms of remaining maturity of such trusts as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
Within one year	17,372	62.1	10,430	61.2	7,049	20.7	15,206	29.7
One to two years	9,048	32.4	4,723	27.8	17,944	52.7	21,652	42.3
More than two years	1,537	5.5	1,894	11.1	9,070	26.6	14,335	28.0
Total	27,957	100.0	17,047	100.0	34,063	100.0	51,193	100.0

The following table sets forth the breakdown of our financing trusts in terms of the level of security provided for the financings under such trusts as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
Secured by collateral	19,960	71.4	16,299	95.6	20,871	61.3	33,808	66.1
Secured by guarantee	7,957	28.5	676	4.0	10,251	30.1	13,940	27.2
Unsecured	40	0.1	72	0.4	2,941	8.6	3,445	6.7
Total	27,957	100.0	17,047	100.0	34,063	100.0	51,193	100.0

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We take into account various factors in determining whether and what guarantee or collateral as credit enhancement for a financing trust is necessary, including but not limited to the track record and overall operation status of the relevant borrower, the value of the proposed guarantee and collateral as compared to the total financing amount, the industry policies and the growth prospect of the industry which the borrower is in. We generally set a maximum ratio of loan to collateral's value, or the LTV ratio, which needs to be satisfied at the time when the loan is granted. Under our internal policies, the LTV ratio should be less than 50% if the collaterals are real property, projects under construction or land use rights, should be less than 40% if the collaterals are moveable properties, such as raw materials and equipment, should be less than 90% if the collaterals are treasury notes or other financial bonds issued by the PBOC, and should be less than 50% if the collaterals are listed shares, corporate bonds or equities in unlisted companies. Unless the counterparty is a state-owned enterprise or a listed company, we normally require the controlling person of the counterparty to provide guarantee for the financing as well. We will only accept guarantors that have sufficient financial resources to fulfill their guarantee obligations under the applicable financing arrangements. Our judgment on the credibility of the guarantors is based on our comprehensive due diligence which takes into account all relevant factors, and we do not rely on any particular credit rating of the guarantors. If we determine that the guarantor has a particularly strong creditworthiness, we may waive collateral requirement for the loan or allow a higher LTV ratio than our general requirements if some collaterals are still required to be provided for such loan.

While we do not perform regular re-evaluation of the collaterals' value, we monitor any potential significant deprecation of the collaterals' value as a result of extensive usage, technology development or changes in economic and market conditions, which constitutes part of our ex-post risk management measures. We may require our counterparties to provide additional collaterals if we determine that the value of existing collaterals would no longer meet our LTV ratio requirement. For additional information, see "Risk Management — Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management".

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For illustrative purpose, we summarize below collateral and guarantee information on our top ten financing trusts in terms of AUM during the Track Record Period.

As of December 31, 2014						
Trust scheme	AUM	Collateral nature ⁽¹⁾	Fair value of collateral ⁽²⁾	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
	(RMB in million)		(RMB in million)			
Financing trusts-K	3,816	Property	8,213	Individuals	No	N/A
				Corporate J	No	Real Estate
Financing trusts-A	1,999	None	Nil	Corporate A1	Yes	Guarantor A1: Infrastructure
				Corporate A2	Yes	Guarantor A2: Investment
Financing trusts-C	1,300	Equity interest	2,359	Individuals	No	N/A
Financing trusts-D	1,000	None	Nil	Corporate B1	Yes	Guarantor B1: Assets Management;
				Corporate B2	Yes	Guarantor B2: Infrastructure
Financing trusts-E	1,000	None	Nil	Corporate C	Yes	Infrastructure
Financing trusts-L	1,000	None	Nil	Corporate D	No	Financial institution
Financing trusts-H	900	Land use right	1,845	Corporate I	No	Investment, Wholesale, Advertisement
				Individuals	No	N/A
Financing trusts-M	800	Equity interest	1,530	Individuals	No	N/A
Financing trusts-N	600	Land use right	1,096	Corporate P	No	Real Estate
Financing trusts-B	593	Mainly including equity interest, land use rights, properties, mining rights	N/A	Multiple corporates and individuals	Including both	Multi-industry
<i>Subtotal</i>	13,008					
As percentage of all financing trusts	46.5%					

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As of December 31, 2015

Trust scheme	AUM (RMB in million)	Collateral nature ⁽¹⁾	Fair value of collateral ⁽²⁾ (RMB in million)	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
Financing trusts-K	3,816	Property	8,213	Individuals	No	N/A
				Corporate J	No	Real Estate
Financing trusts-O	3,000	Land use right, equity interest	5,500	Corporate K	No	Real Estate
Financing trusts-C	1,300	Equity interest	2,359	Individuals	No	N/A
Financing trusts-M	800	Equity interest	1,530	Individuals	No	N/A
Financing trusts-P	600	Land use rights, construction project, equity interest	1,253	Corporate L1	No	Corporate L1: Construction
				Corporate L2	No	Corporate L2: Real Estate
				Individuals	No	N/A
Financing trusts-Q	550	Land use right, property, equity interest	1,057	Individuals	No	N/A
Financing trusts-R	500	Account receivable	1,000	Corporate M	Yes	Real Estate, Construction
Financing trusts-S	500	Land use right, equity interest	145	Corporate P	No	Real Estate
Financing trusts-T	360	Equity interest	612	Individuals	No	N/A
Financing trusts-U	340	None	Nil	Corporate E	Yes	Assets Management
<i>Subtotal</i>	11,766					
As percentage of all financing trusts	69.0%					

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As of December 31, 2016

Trust Scheme	AUM (RMB in million)	Collateral nature ⁽¹⁾	Fair value of collateral ⁽²⁾ (RMB in million)	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
Financing trusts-V	4,500	Property, construction project, equity interest	6,440	Individuals	No	N/A
Financing trusts-W	4,000	None	Nil	Corporate F1 Corporate F2	No, No	Corporate F1: Multi-industry Corporate F2: Real Estate
Financing trusts-X	2,400	Equity interest	5,000	None	N/A	N/A
Financing trusts-Y	1,000	Land use right	2,025	Corporate Q	Yes	Infrastructure
Financing trusts-Z	1,000	None	Nil	Corporate G	Yes	Infrastructure
Financing trusts-AB	1,000	Property	1,680	Corporate K	No	Real Estate
Financing trusts-AD	900	Land use right	1,208	Individuals	N/A	N/A
Financing trusts-AE	876	None	Nil	None	N/A	N/A
Financing trusts-AF	832	None	Nil	None	N/A	N/A
Financing trusts-AG	800	Property, construction project	1,162	Corporate V	No	Real Estate
<i>Subtotal</i>	17,308					
As percentage of all financing trusts	50.8%					

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As of May 31, 2017

Trust scheme	AUM (RMB in million)	Collateral nature ⁽¹⁾	Fair value of collateral ⁽²⁾ (RMB in million)	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
Financing trusts-AH	6,000	Equity interest	7,408	Corporate R1	No	Multi-industry
				Corporate R2	No	Multi-industry
				Corporate R3	No	Real estate
				Individuals	N/A	N/A
Financing trusts-W	4,000	None	Nil	Corporate F1	No	Corporate F1: Multi-industry
				Corporate F2	No	Corporate F2: Real Estate
Financing trusts-AI	4,000	Construction project, land use rights	6,500	Corporate S	No	Real Estate
Financing trusts-V	2,750	Property, construction project, equity interest	6,440	Individuals	No	N/A
Financing trusts-AJ	2,500	Land use rights	3,300	Corporate T	No	Lease
Financing trusts-AK	2,200	Land use rights	3,245	Corporate U	Yes	Real Estate
Financing trusts-AL	1,750	Property	6,428	Corporate T	No	Lease
Financing trusts-Y	1,000	Land use rights	2,025	Corporate Q	Yes	Infrastructure
Financing trusts-Z	1,000	None	Nil	Corporate G	Yes	Infrastructure
Financing trusts-AM	930	None	Nil	None	N/A	N/A
<i>Subtotal</i>	26,130					
As percentage of all financing trusts	51.0%					

Notes:

- (1) Equity interest (as the case may be) refers to equity interest of, among others, counterparties or their related companies.
- (2) Valued at the time such collateral was provided to the loans under our financing trusts.

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The following table sets forth the breakdown of our financing trusts in terms of geographical regions in which the counterparties of such trusts were located as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
East China ······	16,458	58.9	8,571	50.3	11,547	33.9	16,739	32.7
North China ······	6,406	22.9	4,818	28.3	7,086	20.8	10,206	19.9
South China ······	1,725	6.2	1,300	7.6	6,569	19.3	14,226	27.8
Southwest China ······	1,481	5.3	1,340	7.9	1,741	5.1	2,752	5.4
Central China ······	1,807	6.5	978	5.7	4,820	14.1	5,200	10.2
Northwest China ······	80	0.2	40	0.2	600	1.8	–	–
Others ······	–	–	–	–	1,700	5.0	2,070	4.0
Total ······	<u>27,957</u>	<u>100.0</u>	<u>17,047</u>	<u>100.0</u>	<u>34,063</u>	<u>100.0</u>	<u>51,193</u>	<u>100.0</u>

The aggregate AUM attributable to our top ten financing trusts (in terms of AUM) as a percentage of all financing trusts during the Track Record Period are summarized as follows:

	As of December 31,			As of
	2014	2015	2016	May 31,
	2017			
AUM ······	46.5%	69.0%	50.8%	51.0%

The aggregate revenue (i.e. trustee remuneration) attributable to our top ten financing trusts (in terms of revenue) as a percentage of all financing trusts during the Track Record Period are summarized as follows:

	For the year ended December 31,			For the five
	2014	2015	2016	months
	ended			
	May 31,			
	2017			
Revenue ······	32.5%	50.2%	59.6%	42.1%

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Industry exposure of our top ten financing trusts in terms of AUM are summarized as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
Real estate	40.9%	72.0%	25.5%	43.5%
Governmental platform and infrastructure	30.7%	2.9%	11.5%	7.7%
Industrial and commercial enterprises	28.4%	25.2%	63.0%	48.8%
Total	100.0%	100.0%	100.0%	100.0%

Industry exposure of our top ten financing trusts in terms of revenue (i.e. trustee remuneration) are summarized as follows:

	For the year ended December 31,			For the five months ended May 31,	
	2014	2015	2016	2016	2017
Real estate	26.3%	62.6%	46.6%	73.4%	53.7%
Governmental platform and infrastructure	32.9%	19.4%	11.7%	17.5%	–
Industrial and commercial enterprises	40.8%	18.0%	41.7%	9.1%	46.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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The backgrounds of counterparties of our top ten financing trusts in terms of AUM are summarized as follows:

Trust scheme	As of and for the year ended December 31, 2014				
	AUM	Revenue	Counterparty ⁽¹⁾		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry
Financing trust-K	3,816	4	Counterparty K	No	Real Estate
Financing trust-A	1,999	20	Counterparty A	Yes	Infrastructure
Financing trust-C	1,300	20	Counterparty C	No	Lease
Financing trust-D	1,000	15	Counterparty D	Yes	Infrastructure
Financing trust-E	1,000	10	Counterparty E	Yes	Infrastructure
Financing trust-L	1,000	0 ⁽²⁾	Counterparty F	No	Finance
Financing trust-H	900	14	Counterparty H	No	Real Estate
Financing trust-M	800	12	Counterparty L	No	Wholesale and Retailing
Financing trust-N	600	3	Counterparty M	No	Real Estate
Financing trust-B	593	4	Multi-counterparty	Including both	Multi-industry
<i>Subtotal</i>	13,008	102			
As percentage of all financing trusts	46.5%	24.3%			

Trust scheme	As of and for the year ended December 31, 2015				
	AUM	Revenue	Counterparty ⁽¹⁾		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry
Financing trust-K	3,816	57	Counterparty K	No	Real Estate
Financing trust-O	3,000	19	Counterparty N	Yes	Real Estate
Financing trust-C	1,300	19	Counterparty C	No	Lease
Financing trust-M	800	12	Counterparty L	No	Wholesale and retailing
Financing trust-P	600	10	Counterparty O	Yes	Real Estate
Financing trust-Q	550	10	Counterparty P	No	Real Estate
Financing trust-R	500	5	Counterparty Q	Yes	Infrastructure
Financing trust-S	500	5	Counterparty R	No	Real Estate
Financing trust-T	360	5	Counterparty L	No	Wholesale and retailing
Financing trust-U	340	2	Counterparty S	Yes	Infrastructure
<i>Subtotal</i>	11,766	144			
As percentage of all financing trusts	69.0%	42.0%			

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As of and for the year ended December 31, 2016

Trust Scheme	AUM		Revenue		Counterparty ⁽¹⁾	
	RMB in million	RMB in million	Name	Whether a state-owned enterprise		
				or not	Industry	
Financing trusts-V	4,500	37	Counterparty T	No	Lease	
Financing trusts-W	4,000	22	Counterparty U	No	Construction	
Financing trusts-X	2,400	9	Counterparty V	Yes	Lease	
Financing trusts-Y	1,000	5	Counterparty W	Yes	Infrastructure	
Financing trusts-Z	1,000	3	Counterparty X	Yes	Infrastructure	
Financing trusts-AB	1,000	2	Counterparty Z	Yes	Real Estate	
Financing trusts-AD	900	1	Counterparty AA	No	Real Estate	
Financing trusts-AE	876	0 ⁽³⁾	Counterparty AB	No	Real Estate	
Financing trusts-AF	832	0 ⁽⁴⁾	Counterparty AB	No	Real Estate	
Financing trusts-AG	800	0 ⁽⁵⁾	Counterparty AC	No	Real Estate	
<i>Subtotal</i>	17,308	79				
As percentage of all financing trusts	50.8%	29.9%				

As of and for the five months ended May 31, 2017

Trust scheme	AUM		Revenue		Counterparty ⁽¹⁾	
	RMB in million	RMB in million	Name	Whether a state-owned enterprise		
				or not	Industry	
Financing trusts-AH	6,000	3	Counterparty AD	No	Wholesale and retailing	
Financing trusts-W	4,000	13	Counterparty U	No	Construction	
Financing trusts-AI	4,000	14	Counterparty AE	No	Real Estate	
			Counterparty AI	No	Real Estate	
Financing trusts-V	2,750	26	Counterparty T	No	Lease	
Financing trusts-AJ	2,500	1	Counterparty AF	No	Real Estate	
Financing trusts-AK	2,200	2	Counterparty AG	No	Real Estate	
Financing trusts-AL	1,750	2	Counterparty T	No	Lease	
Financing trusts-Y	1,000	3	Counterparty W	Yes	Infrastructure	
Financing trusts-Z	1,000	1	Counterparty X	Yes	Infrastructure	
Financing trusts-AM	930	3	Counterparty AH	No	Real Estate	
<i>Subtotal</i>	26,130	68				
As a percentage of all financing trusts	51.0%	29.5%				

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Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust.
- (2) The revenue from Financing trust-L amounted to RMB0.3 million.
- (3) The revenue from Financing trust-AE amounted to RMB0.4 million.
- (4) The revenue from Financing trust-AF amounted to RMB0.2 million.
- (5) The revenue from Financing trust-AG amounted to RMB0.2 million.

For some of our trusts, we will estimate an expected rate of return based on the planned use of trust assets as specified in the trust contracts and contracts with relevant counterparties. We will inform our trustor clients of such expected rates of return in the relevant trust documents but we do not promise, given that the PRC laws and regulations prohibit us from promising, any minimum return on the trust assets. In order to illustrate the likely performance of our financing trusts, we have calculated the weighted average annualized expected rate of return of all of our financing trusts for which such expected rates of return are available, which included 119, 55, 87 and 116 financing trusts with trust AUM of RMB27,957 million, RMB17,047 million, RMB34,063 million and RMB51,193 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The weighted average annualized expected rates of return as so calculated of all of our financing trusts for which such expected rates of return are available were 8.3%, 8.5%, 6.1% and 6.1% in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. The annualized expected rates of return of such financing trusts ranged from 5.8% to 18.0% in 2014, 6.7% to 18.0% in 2015, 4.3% to 18.0% in 2016 and 4.3% to 18.0% in the five months ended May 31, 2017.

We believe financing trusts will remain as the most important component of our trust business in the near future. We plan to take a more professional and skills-based approach to grow this part of our trust business.

In order to improve our deal and assets origination capabilities, we plan to professionalize our coverage team, initiate direct and highly specialized coverage of underlying assets in target sectors, and increase the breadth and depth of asset coverage in order to originate high quality deals at scale. With dedicated coverage teams, we expect to nurture a more efficient business relationship with our institutional clients and banks and be better able to cultivate other sources of asset origination like local governments and non-bank financial institutions.

Investment Trusts

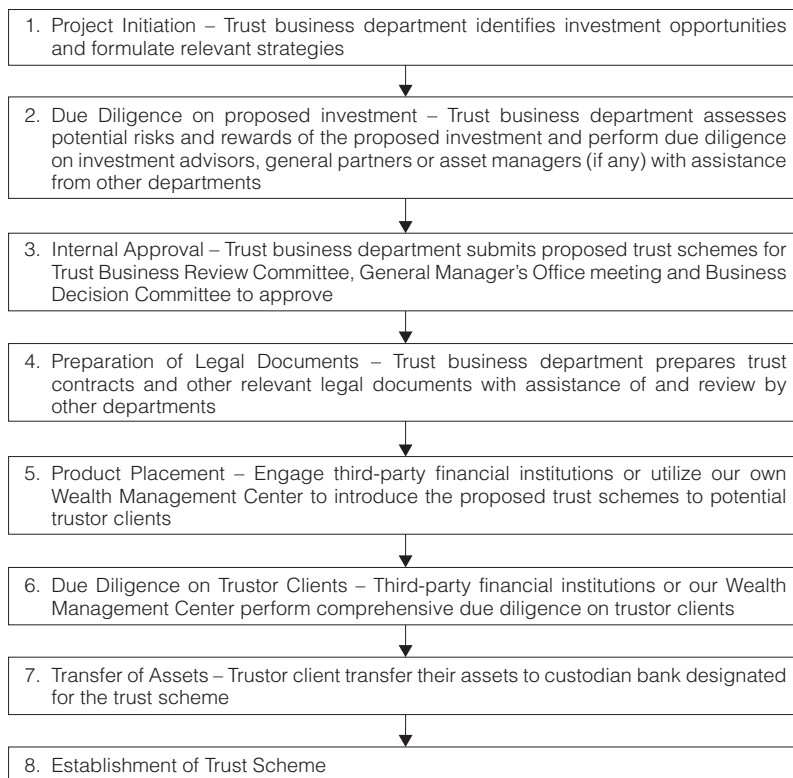
Through our investment trusts, we essentially provide asset and wealth management services to institutional investors and HNWIs to satisfy their investment needs.

Rapid wealth accumulation in China has resulted in increasing demand for various forms of investment opportunities. While the traditional asset management industry in China is dominated by securities investment fund companies and securities firms, which mainly invest in standardized financial products in capital markets, such as the money

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market, publicly traded stocks and bonds, we believe the flexibility of our trusts and the scope of our trust license enable us to offer financial products with unique value proposition to institutional investors and HNWI. For example, the significant fluctuation of China's public stock markets in recent years has created significant investment opportunities for institutional investors and HNWI in China. As China's institutional investors and HNWI are increasingly looking for a wide array of asset classes, we endeavor to create more trusts to capture this growing market.

The following chart illustrates the key steps involved in setting up an investment trust.



For more information on the process of initiation and management of our investment trusts, please refer to “Risk Management — Risk Management in Our Trust Business”.

- *Securities Investment Trusts*

Our securities investment trusts mainly invest entrusted funds in combinations of publicly traded securities, including equity securities traded on Shanghai Stock Exchange and Shenzhen Stock Exchange, closed-end and open-end securities investment funds, enterprise bonds, treasury notes and related derivative products. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 54, 119, 81 and 78 securities investment trusts in existence with trust AUM of RMB3,631 million, RMB13,359 million, RMB9,968 million and RMB10,099 million, respectively.

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We offer three major types of securities investment trusts, (i) management securities investment trusts, (ii) structured securities investment trusts, and (iii) bond markets trusts.

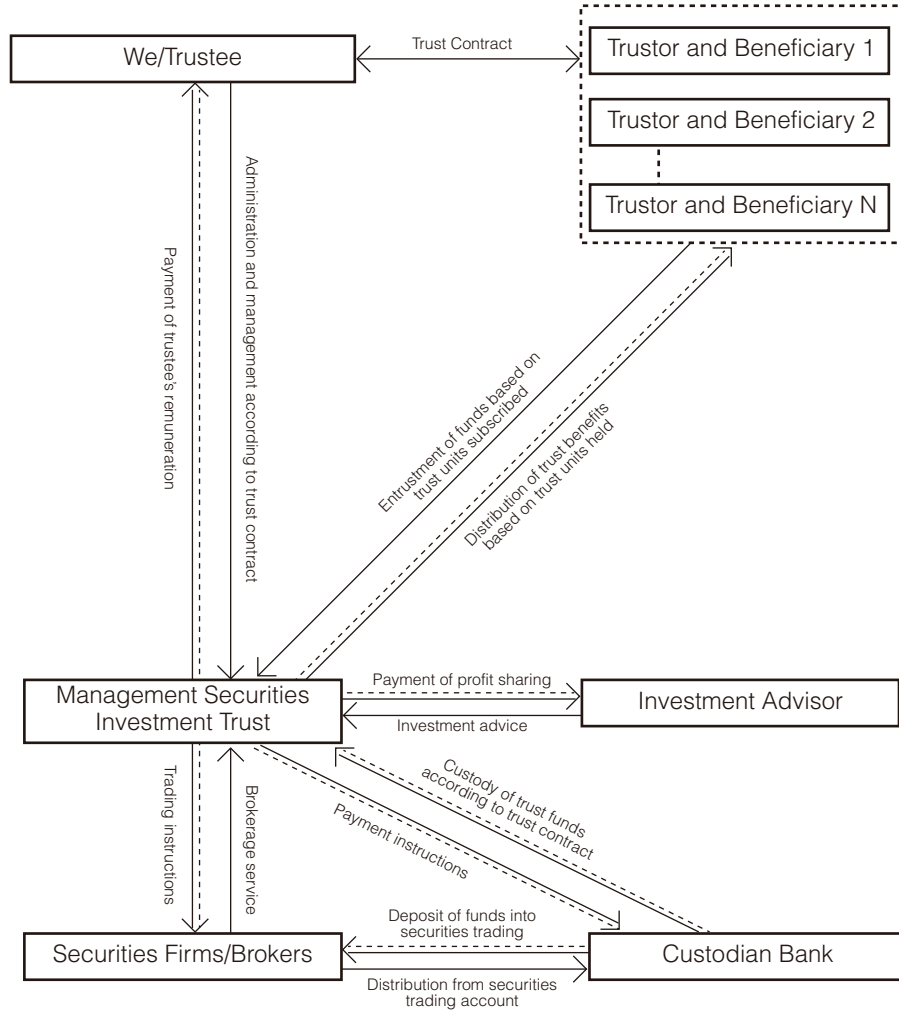
o Management Securities Investment Trusts

A management securities investment trust is a hybrid between a private hedge fund and a public mutual fund. On the one hand, its operation and investment approach is very similar to a private hedge fund. On the other hand, its legal form is a collective fund trust and therefore must comply with certain trust formation, fund raising and regular information disclosure requirements and other regulations applicable to collective fund trusts. As such, management securities investment trusts operate in a more transparent manner than traditional private hedge funds, and are exempted from some of the investment restrictions and limitations imposed on public mutual funds, which gives more flexibility in the operation of such trusts. For example, stock-focused public securities investment funds in China are required to maintain at least 80% of its assets in publicly traded stocks while there is no such requirement for management securities investment trusts. This gives management securities investment trusts more flexibility in managing its long and short positions and thereby enable them to better respond to changes in market conditions. As such, management securities investment trusts have become very popular with financial institutions and high net worth individuals in China.

We established our first management securities investment trust in 2006 and we believe we were one of the first trust companies in China to offer management securities investment trusts based on our own research and knowledge of our industry. As of December 31, 2014, 2015, 2016 and May 31, 2017, AUM of our management securities investment trusts in existence was RMB2,232 million, RMB3,225 million, RMB2,637 million, and RMB2,377 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from management securities investment trusts was RMB17.8 million, RMB16.7 million, RMB35.5 million, RMB17.2 million and RMB7.5 million, respectively.

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The following chart illustrates the typical construct of our management securities investment trusts:



-----> represents actions taken pursuant to instructions of us as the trustee.

Similar to our other trusts, we establish a management securities investment trust through a written trust contract with the trustors. The trust contract will specify the types of securities that the trust will invest in and the permissible range of each type of investment. The trust contracts may impose other limitations as additional safeguards, such as restrictions or prohibitions on investments in certain types of securities or stop loss line whereby we must liquidate the trust's position on the securities once the net asset value, or NAV, of the trust assets touches upon or fall below the stop loss line.

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We have traditionally relied on our relationships with reputable investment advisors to initiate management securities investment trusts and structured securities investment trusts. We select reputable investment advisors, work with them to design trusts, and promote the trusts to institutional investors and HNWIs.

We have gained significant experience in securities investment through acting as the trustees of our securities investment trusts and working closely with investment advisors of such trusts in managing the trusts' securities investments. We have established a securities investment group consisting of our own securities investment experts and launched management securities investment trusts that use our own securities investment group as the investment advisor. We first launched such self-managed management securities investment trust, Tian Tian Cheng Zhang Securities Investment Fund Trust (天天成長證券投資資金信託計劃), in November 2009, which generated significant investment return to our trustor clients. In 2014, 2015, 2016 and the five months ended May 31, 2017, the average actual return rate to trustor clients of our self-managed management securities investment trusts was 21.50%, 3.93%, -1.25% and -0.09%, respectively. In comparison, the SSE Index rose by 52.9% in 2014, rose by 9.4% in 2015, dropped by 12.31% in 2016 and rose by 0.43% in the five months ended May 31, 2017. As we are actively building up our own securities investment capabilities, we expect to establish more management securities investment trusts under the management of our own investment advisors in the future.

We, as the trustee of the trust, will select custodian bank and open special account at such bank to hold the trust fund, and will select securities firm to act as the trust's broker and open securities account with the broker. Regardless of whether we or a third party acts as the investment advisor, all orders and instructions to the broker must be given by us. The investment advisor sends us their suggestions with respect to the purchase or sale of a particular security. We check whether the suggestion conforms to all restrictions set forth in the trust contract, and if it does, we will instruct the broker accordingly. We have established a securities trading system to help us automate and accelerate the process. For additional information, see "— Information Technology".

We, as the trustee, and the custodian bank and the investment advisor normally charge a fixed management fee that in the aggregate usually represent 2% of the trust's NAV. The investment advisor will normally be entitled to share 20% of the appreciation in the trust's NAV, and we charge a floating fee ranging from 10% to 20% of the appreciation in the trust's NAV when we act as the investment advisor of our securities investment trusts.

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Some management securities investment trusts will require the investment advisor to make co-investment in the trust in order to further incentivize the investment advisor.

Our income from securities investment trusts include (i) the trustee's remuneration we receive for acting as the trustee, mainly in the form of a fixed percentage of the trust's NAV, and (ii) 10–20% of the appreciation in the trust's NAV when we also act as the investment advisor for such trusts.

o Structured Securities Investment Trusts

We established Lucion Securities Investment Trust (魯信證券投資信託計劃) in August 2003, which we believe was the first structured securities investment trust in China based on public news reports and our own research and knowledge of our industry. As of December 31, 2014, 2015, 2016 and May 31, 2017, AUM of our structured securities investment trusts in existence was RMB1,376 million, RMB9,252 million, RMB5,456 million and RMB5,847 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from structured securities investment trusts was RMB4.6 million, RMB23.3 million, RMB32.5 million, RMB29.2 million and RMB12.5 million, respectively.

While the basic construct of structured securities investment trust is similar to management securities investment trusts, structured securities investment trusts create two layers of beneficiaries: priority beneficiaries and subordinated beneficiaries. The priority beneficiaries' expected trust benefits are usually fixed and their entitlement to such benefits have priority over the subordinated beneficiaries. The subordinated beneficiaries are entitled to all remaining trust assets after benefits to the priority beneficiaries are distributed and relevant expenses are deducted.

The creation of two layers offers different choices to investors with different risk-return preferences through one trust. The priority beneficiaries will assume much lower risks than subordinated beneficiaries or beneficiaries in a management securities investment trusts, and therefore will be more suitable for investors with lower risk tolerance, such as banks' wealth management schemes. The subordinated beneficiaries assume much higher risks but their return will also be amplified through such structure if the investment achieves a gain. The introduction of the priority layer essentially adds leverage to the investment of the subordinated beneficiaries.

We have adopted several measures to reduce the risk that the investment advisor and subordinated beneficiary may take on excessive risk at the expense of the priority beneficiaries. Firstly, our structured trusts would set a stop loss line, whereby we must liquidate the trust's position once the NAV

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of the trust assets touches upon or fall below the stop loss line because, once the line is crossed, any further loss may be incurred to the priority beneficiaries. To ensure that the stop loss line is not crossed, we would also set a warning line, which is usually a few percentage above the stop loss line, whereby we will require the subordinated beneficiary to inject additional funds into the trust to prevent the NAV of the trust assets from declining further. To ensure sufficient subordinated funds in the trust to protect the priority funds, our structured trust would also set a maximum ratio of priority trust units to subordinated trust units, which is normally 2:1. Finally, in selecting the investment advisor and subordinated beneficiary, we would perform due diligence on the investment advisor to ensure that it has solid financial resources, rich experience and a track record of successfully advising and participating in structured securities investment trusts.

- o Bond Markets Trusts

This type of trusts invests only in notes and bonds traded on the inter-bank bond market as well as the two major securities exchanges in China. Such notes and bonds include government bonds issued by the MOF and local governments, central bank notes issued by the PBOC, financial institutions bonds issued by policy banks, commercial banks and other financial institutions, enterprise bonds issued by large state-owned enterprises or private enterprises, and short-term financing bills and notes issued by corporate issuers. These securities have high liquidity and low risk profile, and therefore, our bond markets trusts serve investors' need for investments with safe returns.

As of December 31, 2014, 2015, 2016 and May 31, 2017, the AUM of our bond markets trusts in existence was RMB23 million, RMB882 million, RMB1,875 million and RMB1,876 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from bond markets trusts was RMB1.0 million, RMB1.4 million, RMB2.1 million, RMB0.8 million and RMB1.8 million, respectively.

In our bond markets trusts, we would engage an investment advisor to advise investment of the trust funds into bonds and notes in the inter-bank bond market.

- o Entrance and Exit Mechanism

All of our securities investment trusts are fund trusts and most of them are collective fund trusts. Beneficiary interests in the trusts are divided into trust units, and in the case of structured trusts, are further classified into priority trust units and subordinated trust units.

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We have offered both open-end and closed-end securities investment trusts. Open-end trusts would be open for subscription and redemption at predetermined intervals, such as once every month or quarter. The subscription and redemption price will be based on NAV of the trust assets at the time. For closed-end trusts, investors can subscribe for trust units only at establishment of the trusts and exit only upon the trusts' termination.

The following table sets forth the information of our top five securities investment trusts in terms of revenue during the Track Record Period.

Trust scheme	Manager	Investment return of such trust scheme for the periods indicated below					Revenue from such trust scheme for the year ended December 31, 2014	
		Year ended December 31,			Five months ended May 31,		RMB in million	As % of total revenue of securities investment trusts
		2014	2015	2016	2016	2017		
Securities investment trust-A	Manager team A	-9.60%	2.90%	-5.90%	0.57%	-1.15%	4.34	18.1%
Securities investment trust-C	Manager C	21.80%	30.50%	-20.52%	-8.77%	-1.72%	1.89	7.9%
Securities investment trust-G	Manager G	13.40%	26.40%	-10.45%	-14.23%	5.49%	1.32	5.5%
Securities investment trust-H	Manager H	26.80%	24.00%	-8.78%	-14.18%	-17.66%	1.23	5.1%
Securities investment trust-F ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	1.21	5.0%
Subtotal							9.99	41.6%

Note:

(1) We did not engage independent asset managers since certain subordinated trustors of these trusts acted as the asset managers of these trusts.

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Trust scheme	Manager	Investment return of such trust scheme for the periods indicated below					Revenue from such trust scheme for the year ended December 31, 2015	
		Year ended December 31,			Five months ended May 31,		RMB million	As % of total revenue of securities investment trusts
		2014	2015	2016	2016	2017		
Securities investment trust-C	Manager C	21.80%	30.50%	-20.52%	-8.77%	-1.72%	2.21	5.3%
Securities investment trust-O ⁽¹⁾	Manager G	N/A	2.00%	0.49%	6.14%	-4.98%	1.56	3.7%
Securities investment trust-I ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A	1.42	3.4%
Securities investment trust-G	Manager G	13.40%	26.40%	-10.45%	-14.23%	5.49%	1.33	3.2%
Securities investment trust-D	Manager team B	-20.90%	151.70%	10.16%	-8.10%	-6.34%	1.23	2.9%
Subtotal							7.75	18.5%

Notes:

- (1) Securities investment trust-O started in May 2015.
- (2) We did not engage independent asset managers since certain subordinated trustors of these trusts acted as the asset managers of these trusts.

Trust scheme	Manager	Investment return of such trust scheme for the periods indicated below					Revenue from such trust scheme for the year ended December 31, 2016	
		Year ended December 31,			Five months ended May 31,		RMB in million	As % of total revenue of securities investment trusts
		2014	2015	2016	2016	2017		
Securities investment trust-A	Manager team A	-9.60%	2.90%	-5.90%	0.57%	-1.15%	9.45	13.5%
Securities investment trust-P	Manager P	4.91%	7.50%	-1.37%	0.60%	-4.19%	4.67	6.7%
Securities investment trust-N ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	4.04	5.8%
Securities investment trust-Q ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	3.78	5.4%
Securities investment trust-K ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	3.37	4.8%
Subtotal							25.31	36.2%

Note:

- (1) We did not engage independent asset managers since certain subordinated trustors of these trusts acted as the asset managers of these trusts.

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Trust Scheme	Manager	Investment return of such trust scheme for the periods indicated below					Revenue from such trust scheme for the five months ended May 31, 2017	
		Year ended December 31,			Five months ended May 31,		RMB in millions	As % of total revenue of securities investment trusts
		2014	2015	2016	2016	2017		
Securities investment trust-N ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	2.80	12.7%
Securities investment trust-Q ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	2.62	11.9%
Securities investment trust-R ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	1.47	6.7%
Securities investment trust-K ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	1.39	6.3%
Securities investment trust-S ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A	1.39	6.3%
Subtotal							9.67	44.0%

Note:

- (1) We did not engage independent asset managers since certain subordinated trustors of these trusts acted as the asset managers of these trusts.

The following table sets forth these investment managers' track record of investment returns during the Track Record Period.

	Track record of investment returns ⁽¹⁾ of the managers for the periods indicated below				
	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
Manager team A	-10.6%	-15.0%	-14.3%	-7.2%	-7.2%
Manager C	-13.2%	16.5%	-43.8%	-23.0%	-8.4%
Manager G	-5.2%	-7.7%	-10.0%	-10.2%	-5.8%
Manager H	-24.6%	110.9%	26.6%	12.3%	-17.4%
Manager team B	-6.4%	21.7%	-1.0%	-3.4%	-1.5%
Manager P	N/A ⁽²⁾	-22.5%	252.4%	304.4%	81.1%

Notes:

- (1) Investment return is measured as the weighted average percentage change in respect with NAV of our securities investment trust existed in each of the financial periods managed by the manager.
- (2) Manager P was not involved in managing our securities investment trust at the beginning of the year ended December 31, 2014.

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- *Indirect Investment Trusts*

Our indirect investment trusts do not directly invest in any particular class of assets (such as listed securities or art work). Instead, such trusts subscribe to asset management scheme initiated by a security firm or other financial institutions or limited partner interests in a limited partnership. The relevant asset management scheme or limited partnership then provide funding to counterparties in the form of (i) entrusted loan through commercial bank, (ii) equity investment or (iii) shareholders' loan.

Some of our indirect investment trusts invest in equities or equity-linked securities, such as convertible bonds, of unlisted companies. Such trust would normally form a limited partnership with a professional private equity investment firm, which will serve as the general partner of the partnership while our trust would serve as a limited partner. The limited partnership will then invest in unlisted companies. Through the limited partnership and its general partner, we may indirectly participate in determining important matters of the investee companies to protect interests of our trustors. We control our risks with respect to such trusts mainly through careful selection of asset manager or general partner of such products as well as due diligence on the structural design of the relevant assets management scheme or limited partnership (e.g. the ratio between priority investment and subordinated investment in the relevant product) to ensure that relevant investment risks to such indirect investment trusts are properly managed. Such investment tends to be long-term, usually in the range of 3 to 5 years, and the term of these trusts will be set accordingly. We seek to exit the investments and realize investment gain mainly through IPOs of the investee companies and subsequent resale of their shares in the public market. Under the arrangements of certain of our indirect investment trusts, the counterparties are required to repurchase our equity interests in such trusts from us upon the expiration dates.

As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 37, 38, 29 and 23 indirect investment trusts in existence with trust AUM of RMB17,726 million, RMB8,062 million, RMB9,902 million and RMB4,837 million, respectively. In 2014, 2015, 2016 and for the five months ended May 31, 2016 and 2017, our income from indirect investment trusts was RMB154.3 million, RMB121.5 million, RMB109.7 million, RMB35.1 million and RMB45.9 million, respectively.

In August 2011, we designed and launched Zun Yue Jin Qu No. 1 (PE) Collective Fund Trust (尊岳進取1號(PE)集合資金信託) which focused on equity investment in companies traded in local over-the-counter market. In November 2015, we established Kun Lun Investing NEEQ (National Equities Exchange and Quotations) Investment Fund Collective Fund Trust (昆侖投資新三板投資基金集合資金信託計劃), which was our first trust that focused on investing in companies that are listed or target to be listed on China's new third board, a newly

established electronic equity transfer system that have low listing threshold for small and start-up companies.

- *Family Trusts*

Trusts have traditionally been used by international private banks as a legal arrangement to help their client with property inheritance and other tax-optimizing matters. While our trusts have focused on financing and investment functions in recent years, we have started to establish family trusts that offer functions similar to trusts in western countries while maintaining their investment function. In 2015, we established a dedicated business department for family trust business.

In August 2014, we established the “Wealth Inheritance” series of property rights trusts (財富傳承系列財產權信託計劃). Since then, we had signed contracts for the establishment of a total of 156 such trusts as of the Latest Practicable Date, 84 of which had received entrusted assets with trust AUM of approximately RMB1,645.5 million as of May 31, 2017. While they are called “property rights trusts”, trustors often entrust their fund to us in addition to other properties such as real properties, securities, beneficial interests in insurance policies, precious metal, diamond or artworks. For example, in October 2015, we established our first trust that accepted beneficial interest in a life insurance policy as the trust asset. The trustors may entrust all assets to the family trust upon establishment of the trust or entrust some assets upon establishment and add more assets to the trust later on.

Family trusts are individual trusts established for individual families. The design of each family trust is highly individualized and tailor made to fit the different needs of the trustors. The duration of a family trusts is usually indefinite and therefore is expected to last for decades until after death of the trustor and some family trusts would last even longer, such as after the death of the trustor’s children or even grand-children. In addition, as we will be required to perform more responsibilities after the trustor’s death, the trust contracts for family trusts often provide for increases in trustee’s remuneration after the trustor’s death. As such, as we establish more and more family trusts, the trust AUM of such trusts is expected to continue to accumulate as each of such trusts has a very long term, and our trustee’s remuneration is expected to continue to increase as well not only because of the continued increase in trust AUM but also because of the back-loaded nature of our trustee’s remuneration under such trusts. While we only started to generate income from our family trust business in 2014, such income increased rapidly from RMB0.02 million in 2014 to RMB0.4 million in 2015 and to RMB1.0 million in 2016, and increased from RMB0.4 million for the five months ended May 31, 2016 to RMB0.8 million for the five months ended May 31, 2017, and we expect income from family trust business to continue to grow in the future.

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We already have trustor clients of our family trusts from 19 different provinces and municipalities in China such as Beijing, Tianjin, Chongqing, Shandong, Guangdong, Shanghai, Jiangsu, Zhejiang, Jiangxi, Liaoning, Gansu and Fujian. As more and more HNWI in China realize the benefits of family trusts, we expect there is great market potential for us to expand this trust business in the future.

We also provide private wealth management services in our family trusts. Depending on our trustor clients' preferences, they may grant us different levels of authorities with respect to management of the trust assets. Some trustor clients would want to make their own investment decision with respect to each disposition of the trust assets. Other trustor clients may just agree with us on the general areas of investment and necessary restrictions and then grant us full authority to manage and dispose of the trust assets. As part of our service, we would advise our trustor clients on asset allocation and product selection based on our analysis of the trustor client's risk profile and investment needs and preferences. When selecting products for our trustor clients, we give no preference to our own products but will select the most appropriate product in the market for our clients.

During the course of serving our existing clients and developing new clients, we proactively engage our clients in their family trust product design process to help us better understand and satisfy their individualized and diversified needs. We have optimized and standardized the whole process from initial meeting with potential clients to post-trust establishment risk management. Through individualized design and effective management of our family trusts, we are able to help our trustor clients preserve their privacy, shield their entrusted assets from certain risks, maintain and increase the value of the entrusted assets and achieve the goal of wealth inheritance.

- *Discretionary Wealth Management Trusts*

We are also building up our private wealth management business beyond family trusts. As the first step, we established certain individual trusts whereby the trustor clients entrust their funds to us and let us allocate the funds into different trusts that we choose for them based on their investment needs. The trust contracts normally set forth a general scope for the investment agreed by the trustors, and we are granted with full authority in allocating the trust assets. We currently allocate most of such trust funds into trusts established by us as we are more familiar with and have more confidence in our own products. We established first such trust in June 2015, and since then, we had established a total of 17 such trusts as of the Latest Practicable Date with trust AUM of RMB1,790 million and RMB2,255 million as of May 31, 2016 and May 31, 2017, respectively. We had generated RMB16.0 million income from such trusts for the five months ended May 31, 2017.

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We are currently exploring opportunities to develop cooperative relationships with life insurance providers, banks and law firms to develop more trustor clients of our family trusts and discretionary wealth management trusts. We are also continuously building up our product selection capabilities by enhancing our knowledge about all kinds of investment products in the market so that we can suggest the best products to our clients and satisfy their one-stop investment needs. In addition, we intend to build a dedicated advisor team supported by product specialists in order to provide better investment advice to our clients.

- *Other Trusts*

- o Alternative Investment Trusts

In addition to trusts that invest in mainstream investment products, we have also established trusts that invest in alternative investment assets such as diamond and artworks. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 16, 13, 15 and 12 alternative investment trusts in existence with trust AUM of RMB787 million, RMB657 million, RMB742.9 million and RMB682.7 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from alternative investment trusts was RMB6.3 million, RMB2.8 million, RMB8.0 million, RMB1.1 million and RMB0.4 million, respectively.

In June 2012, we established Mei Zuan Zhi Yuan No. 1 Diamond Investment Fund Trust (美鑽之緣1號鑽石投資基金信託計劃), which we believe was the first diamond trust in China based on public news reports as well as our own research and knowledge of our industry. The trust funds were used to purchase diamonds as investment and the beneficiaries may choose to receive cash or diamonds upon termination of the trust.

In July 2012, we established Ding Xin No. 2 Artwork Investment Collective Fund Trust (鼎鑫2號藝術品投資集合資金信託計劃), which we believe was the first artwork trust in China that invests in original print artworks of a well-known Chinese artist based on public news reports as well as our own research and knowledge of our industry. The beneficiaries may choose to receive cash or the print artworks upon termination of the trust.

- o Charitable Trusts

To better fulfill our social responsibilities, we have established four charitable trusts as of the Latest Practicable Date. Two of them were established in June 2016, whereby police officers who are injured or sacrificed their lives when providing public service as well as the family members of such officers are able to receive financial support from such trust. While maintaining the safety of the trust assets, we manage to

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increase the value of such assets. With the adoption of the Charity Law of the PRC on March 16, 2016, we believe the significance of charitable trusts to the overall business of trust companies in China including us will increase, and we plan to establish more charitable trusts in the future. In December 2016, we established Datong Series Tongxin Yangmeng Charitable Trust Scheme (大同系列同心揚夢慈善信託計劃), which was the first charitable trust successfully filed with the civil affairs department of Shandong Provincial People's Government for recordation since the Charity Law of the PRC came into force on September 1, 2016. In July 2017, we established another trust which serves similar purposes as Datong Series Tongxin Yangmeng Charitable Trust Scheme, namely to support impoverished students and to promote the development of education. We had generated RMB0.2 million from such trusts for the five months ended May 31, 2017.

- *Investment in Other Trust Schemes Managed by Us*

Our investment trusts have made certain investments in other trust schemes managed by us during the Track Record Period. Such investment trusts include certain of our family trusts, discretionary wealth management trusts, securities investment trusts and indirect investment trusts.

- o Family Trusts

We advise the trustor clients of our family trusts on asset allocation and product selection based on our analysis of their risk profile and investment needs and preferences, and also provide the trustor clients with updates on the investments by such family trusts on a regular basis. The trustor clients of the applicable family trusts are informed of investments in our other trust schemes and have not raised any disagreement or concern over such investments. As of December 31, 2015, 2016 and May 31, 2017, two, 17 and 32 of our family trusts invested in our other trusts and the aggregate AUM of such family trusts were RMB6.0 million, RMB47.1 million and RMB132.4 million, respectively, representing 1.7%, 6.0% and 8.0% of the total AUM of our family trusts as of the respective dates. Our family trusts did not invest in our other trusts in 2014.

- o Discretionary Wealth Management Trusts

With respect to discretionary wealth management trusts, the trust contracts normally set forth a general scope of investment agreed by the trustor clients, and we are granted with full authority in allocating the trust assets. Such trust contracts either specifically require us to allocate the trust assets into our other trusts or generally authorize us to allocate the trust assets into various different types of investment products, including trust products.

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Where the trust contracts did not specifically require us to allocate the trust assets into our other trusts, we have informed the relevant trustor clients of the investments in our other trusts and such trustor clients have not raised any disagreement or concern over such investments. We established our first discretionary wealth management trust in June 2015 and the AUM of such trusts amounted to RMB152 million, RMB2,140 million and RMB2,255 million as of December 31, 2015, December 31, 2016 and May 31, 2017, respectively. As of December 31, 2015, December 31, 2016 and May 31, 2017, all, eight and 11 of our discretionary wealth management trusts made investments in our other trusts.

o Securities Investment Trusts

Pursuant to the trust contracts, to maximize return on these trusts' assets and fulfill our duty to act in the best interest of the trustor clients, we have used idle funds of these trusts to invest in our other collective fund trusts during the Track Record Period. Because the trust contracts of these trusts specifically permit such investments and we have notified the trustor clients of the scope of investments specified in the trust contracts, the trustor clients of these trusts have consented to such investments and effectively waived any potential conflict of interest by entering into the trust contracts and investing in the trusts. As of December 31, 2014, 2015, 2016 and May 31, 2017, three, four, four and four of our securities investment trusts used their idle funds to make investment in our other collective fund trusts and the aggregate AUM of such trusts were RMB67.5 million, RMB170.8 million, RMB167.7 million and RMB161.4 million, respectively, representing 1.9%, 1.3%, 1.7% and 1.6% of the total AUM of our securities investment trusts as of the respective dates.

o Indirect Investment Trusts

In June 2015, one of our indirect investment trusts invested in the asset management scheme of an asset management company, which then used an administrative management trust established by us to provide loans to a third party. The decision by our administrative management trust to provide the loans was made by the asset management company, which is an independent third party. As such, we do not believe there were any conflict of interest in such investment. The AUM of such administrative management trusts involved was RMB350 million, RMB350 million and nil, representing 0.17%, 0.18% and nil of the total AUM of our administrative management trusts as of December 31, 2015, December 31, 2016 and May 31, 2017.

To manage any potential conflict of interest, as described above, we allocate trust assets into our other trusts only with consents of the relevant trustor clients through specific or general authorizations in the relevant trust

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contracts and subsequent notification to the relevant trustor clients. In addition, when selecting products for investment trusts under management, we consider other wealth management products or trust schemes available in the market, taking into consideration their return, risk and fees involved, and give no preference to our own products. We believe that the return offered and fees charged by our trust schemes are generally similar to other products available in the market and investment in our other trust schemes are commercially justifiable from our perspective as the trustee as it is generally less risky and more time efficient to invest in products that we are familiar with. During the Track Record Period and up to the Latest Practicable Date, we have not received any complaint from our trustor clients in respect of investment in other trusts we managed. Our PRC Legal Advisor has advised us that investments in trust schemes managed by us as described above comply with the applicable laws and regulations in the PRC.

- *Risk Profile of Our Investment Trusts*

We monitor the risk profile of our investment trusts through analysis of the financial assets they invested in including the type and liquidity of such financial assets.

The following table sets forth the breakdown of our investment trusts by the target type of financial assets to be invested in accordance with trust scheme documents as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
(RMB in million, except percentage)								
Investment in equity financial products	3,608	16.0	12,477	55.1	8,093	29.0	8,223	28.5
Investment in fixed income financial products	23	0.1	882	3.9	1,875	6.7	1,876	6.5
Investment in other mixed financial products ⁽¹⁾	18,899	83.9	9,269	41.0	17,941	64.3	18,785	65.0
Total	22,530	100.0	22,628	100.0	27,909	100.0	28,884	100.0

Note:

(1) Such investments mainly include subscription to asset management schemes initiated by security firms or other financial institutions, and limited partner interests in limited partnerships, which then provide funding to counterparties in the form of entrusted loans through commercial bank, equity investment or shareholders' loan.

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The following table sets forth the breakdown of our investment trusts invested in other mixed financial products by industry category of underlying counterparties as of the dates indicated:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except for percentages)							
Real estate	16,794	88.9	6,379	68.8	5,273	29.4	1,781	9.5
Government platform and infrastructure	–	0.0	–	0.0	500	2.8	600	3.2
Industrial and commercial enterprises	2,105	11.1	2,738	29.5	7,992	44.5	7,396	39.4
Others ⁽¹⁾	–	0.0	152	1.7	4,176	23.3	9,008	47.9
Total	18,899	100.0	9,269	100.0	17,941	100.0	18,785	100.0

Note:

- (1) Such trusts are primarily family trusts, discretionary wealth management trusts and other trusts which invest in wealth management products issued by banks or other financial products.

The following table sets forth the breakdown of our investment trusts invested in other mixed financial products by remaining maturity as of the dates indicated:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except for percentages)							
Within one year	10,221	54.1	6,522	70.4	10,389	57.9	11,265	59.9
One to two years	8,170	43.2	1,670	18.0	4,447	24.8	4,631	24.7
More than two years	508	2.7	1,077	11.6	3,105	17.3	2,889	15.4
Total	18,899	100.0	9,269	100.0	17,941	100.0	18,785	100.0

We monitor the investment trusts that invest in other mixed financial products to assess materialized risks of counterparty default, which affect the recoverability of trust assets. During the term of a trust, if we determine that there is substantial likelihood that we will not be able to collect all payments from the counterparty according to its contract with us before the expected dates of distribution and/or the trust expiration date and therefore such distribution to beneficiaries of the trust is unlikely to be made as planned, we refer to such trust as a troubled trust. For more information on identification of troubled trusts, see “Risk Management — Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management — Risk Management of Troubled Trusts”.

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On the basis that, during the Track Record Period and up to the Latest Practicable Date, none of our investment trusts that invested in other mixed financial products have been identified as troubled trusts, our Directors are of the view that such investment in other mixed financial products is not subject to any significant risk as to recoverability.

The following table sets forth the allocation of assets of our investment trusts targeted to invest in equity and fixed income products as of the dates indicated⁽¹⁾:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	%	%	%	%
Listed equity securities ⁽²⁾				
Main board				
– Shanghai stock exchange	28.34	23.63	35.60	36.26
– Shenzhen stock exchange	6.02	6.62	4.39	3.65
SME board	18.26	21.79	25.95	24.24
Growth enterprise board	2.66	7.09	4.88	4.91
<i>Subtotal</i>	<u>55.28</u>	<u>59.13</u>	<u>70.82</u>	<u>69.06</u>
Mutual funds	0.85	4.68	1.59	0.43
Wealth management products	7.97	4.70	5.07	4.76
Treasury notes under reverse repurchase arrangements	3.38	6.24	0.64	2.74
Bonds	0.07	2.55	17.47	19.87
National Equities Exchange and Quotations	–	–	0.43	0.40
Cash	32.45	22.70	3.98	2.74
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Note:

- (1) The percentages set out in the table above are based on market value, which is determined (i) on the basis of the recently quoted market price; and (ii) if there is no recently quoted market price, by using valuation techniques.

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- (2) Industry analysis of listed equity securities in which our investment trusts invested in are set out below:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	%	%	%	%
Manufacturing	26.41	34.66	34.64	30.77
Construction	8.34	4.81	8.22	8.7
Finance	5.80	1.49	0.26	0.14
Farming, forestry, herding, fishing and mining	4.20	3.52	4.34	2.69
Information technology	3.27	5.15	2.40	1.64
Real estate	1.46	1.61	16.10	18.73
Utilities	1.33	1.10	1.34	0.89
Wholesale & retailing	1.12	2.18	0.40	0.07
Others	3.35	4.61	3.12	5.42
Sub-total for listed equity securities	55.28	59.13	70.82	69.06

For illustrative purpose, we summarized the information on our top ten investment trusts in terms of AUM during the Track Record Period, and analyzed the concentration and investment exposure of our top ten investment trusts in terms of AUM and revenue. The following table sets forth the information on our top ten investment trusts in terms of AUM during the Track Record Period.

As of and for the year ended December 31, 2014						
Trust scheme	Name	Counterparty ⁽¹⁾	Whether a state-owned enterprise or not	Industry	AUM RMB in million	Revenue RMB in million
Investment trust-A	Counterparty A	No		Financial Institution	3,000	30
Investment trust-K	Counterparty J	Yes		Financial Institution	2,040	20
Investment trust-L	Counterparty K	No		Financial Institution	1,800	14
Investment trust-M	Counterparty L	Yes		Financial Institution	1,700	11
Investment trust-N	Counterparty M	Yes		Financial Institution	1,400	8
Investment trust-B	Counterparty B	Yes		Financial Institution	1,240	14
Investment trust-D	Counterparty D	Yes		Financial Institution	757	5

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As of and for the year ended December 31, 2014					
Trust scheme	Counterparty ⁽¹⁾			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Investment trust-E	Counterparty E	Yes	Financial Institution	682	3
Investment trust-H	Counterparty G	Yes	Financial Institution	500	6
Investment trust-I	Counterparty H	Yes	Financial Institution	450	6
<i>Subtotal</i>				13,569	116
As percentage of all investment trusts				60.2%	61.9%
As of and for the year ended December 31, 2015					
Trust scheme	Counterparty ⁽¹⁾			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Investment trust-L	Counterparty K	No	Financial Institution	1,800	13
Investment trust-K	Counterparty J	Yes	Financial Institution	1,040	15
Investment trust-O ⁽²⁾	N/A	N/A	N/A	993	2
Investment trust-P ⁽³⁾	N/A	N/A	N/A	882	1
Investment trust-Q ⁽²⁾	N/A	N/A	N/A	675	0 ⁽⁴⁾
Investment trust-R	Counterparty N	Yes	Financial Institution	617	8
Investment trust-S ⁽²⁾	N/A	N/A	N/A	603	1
Investment trust-T ⁽²⁾	N/A	N/A	N/A	603	1
Investment trust-U ⁽⁵⁾	N/A	N/A	N/A	457	1
Investment trust-V ⁽²⁾	N/A	N/A	N/A	438	0 ⁽⁶⁾
<i>Subtotal</i>				8,107	44
As percentage of all investment trusts				35.8%	25.9%

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As of and for the year ended December 31, 2016					
Trust Scheme	Counterparty ⁽¹⁾		Industry	AUM	Revenue
	Name	Whether a state-owned enterprise or not		RMB in million	RMB in million
Investment trust-X ⁽⁷⁾	N/A	N/A	N/A	2,334	0 ⁽⁸⁾
Investment trust-AC	Counterparty AA	Yes	Financial Institution	2,200	0 ⁽¹⁰⁾
Investment trust-L	Counterparty K	No	Financial Institution	1,978	27
Investment trust-Y ⁽⁹⁾	N/A	N/A	N/A	1,000	3
Investment trust-AD	Counterparty AB	No	Financial Institution	998	13
Investment trust-O ⁽²⁾	N/A	N/A	N/A	993	3
Investment trust-P ⁽³⁾	N/A	N/A	N/A	945	2
Investment trust-AE	Counterparty AC	No	Financial Institution	920	2
Investment trust-AF	Counterparty AD	Yes	Financial Institution	650	0 ⁽¹¹⁾
Investment trust-Z	Counterparty M	Yes	Financial Institution	640	5
<i>Subtotal</i>				12,658	55
As percentage of all investment trusts				45.4%	28.2%

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As of and for the five months ended May 31, 2017					
Trust Scheme	Counterparty ⁽¹⁾			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Investment trust-X ⁽⁷⁾	N/A	N/A	N/A	6,152	1
Investment trust-Y ⁽⁹⁾	N/A	N/A	N/A	1,000	11
Investment trust-O ⁽²⁾	N/A	N/A	N/A	993	1
Investment trust-P ⁽³⁾	N/A	N/A	N/A	945	1
Investment trust-AE	Counterparty AC	No	Financial Institution	920	3
Investment trust-AH	Counterparty AC	No	Financial Institution	799	0 ⁽¹²⁾
Investment trust-AF	Counterparty AD	Yes	Financial Institution	650	3
Investment trust-AI	Counterparty AJ	Yes	Financial Institution	600	1
Investment trust-AJ	Counterparty AK	Yes	Financial Institution	576	0 ⁽¹³⁾
Investment trust-AA ⁽¹⁴⁾	N/A	N/A	N/A	505	0 ⁽¹⁵⁾
<i>Subtotal</i>				13,140	21
As percentage of all investment trusts				45.5%	22.3%

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the security firm initiating the relevant asset management scheme or the general partner of the limited partnership in which the applicable trust invested, unless otherwise indicated.
- (2) Such investment trust invested in equity products, bonds and other financial products.
- (3) Such investment trust invested in bonds and other financial products.
- (4) The revenue of investment trust-Q amounted to RMB0.5 million.
- (5) Such investment trust invested in equity products.
- (6) The revenue of investment trust-V amounted to RMB0.4 million.
- (7) Such investment trust invested in trust schemes and other financial products.
- (8) The revenue of investment trust-X amounted to RMB0.02 million.
- (9) Such investment trust invested in monetary products, fixed income products and equity products.
- (10) The revenue of investment trust-AC will be recognized upon liquidation of such trust.
- (11) The revenue of Investment trust-AF amounted to RMB0.04 million.
- (12) The revenue of investment trust-AH amounted to RMB0.4 million.
- (13) The revenue of investment trust-AJ amounted to RMB0.1 million.
- (14) Such investment trust invested in convertible bonds.
- (15) The revenue of investment trust-AA amounted to RMB0.4 million.

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The aggregate AUM attributable to our top ten investment trusts (in terms of AUM) as a percentage of all investment trusts during the Track Record Period are summarized as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
AUM	60.2%	35.8%	45.4%	45.5%

The aggregate revenue (i.e. trustee remuneration) attributable to our top ten investment trusts in terms of revenue as a percentage of all investment trusts during the Track Record Period are summarized as follows:

	For the year ended December 31,			For the five months ended May 31,
	2014	2015	2016	2017
Revenue	72.7%	59.5%	49.8%	55.4%

Investment exposure of our top ten investment trusts in terms of AUM are summarized as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
Investment in equity financial products	–	57.4%	7.8%	11.4%
Investment in fixed income financial products	–	–	7.5%	7.2%
Investment in other mixed financial products	100.0%	42.6%	84.7%	81.4%
Total	100.0%	100.0%	100.0%	100.0%

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Investment exposure of our top ten investment trusts in terms of revenue (i.e. trustee remuneration) are summarized as follows:

	Year ended December 31,			Five months ended May 31,
	2014	2015	2016	2017
Investment in equity financial products	–	–	14.5%	5.4%
Investment in other mixed financial products	100.0%	100.0%	85.5%	94.6%
Total	100.0%	100.0%	100.0%	100.0%

For some of our trusts, we may estimate an expected rate of return based on the planned use of trust assets as specified in the trust contracts and contracts with relevant counterparties. We will inform our trustor clients of such expected rates of return in the relevant trust documents but we do not promise, given that the PRC laws and regulations prohibit us from promising, any minimum return on the trust assets. In order to illustrate the likely performance of our investment trusts, we have calculated the weighted average annualized expected rate of return of all of our investment trusts for which such expected rates of return are available, which included 54, 96, 73 and 74 investment trusts with trust AUM of RMB19,273 million, RMB17,357 million, RMB22,263 million and RMB22,650 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The weighted average annualized expected rates of return as so calculated of all of our investment trusts for which such expected rates of return are available were 8.7%, 7.8%, 6.6% and 6.3% in 2014, 2015, 2016 and for the five months ended May 31, 2017, respectively. The annualized expected rates of return of such investment trusts ranged from 3.3% to 12.0% in 2014, 3.3% to 12.5% in 2015, 3.3% to 9.8% in 2016 and 2.5% to 10.0% in the five months ended May 31, 2017.

Administrative Management Trusts

Through our administrative management trusts, we essentially provide administrative services for the trustors, aiming at satisfying the investment needs of our trustor clients on one hand and the financing needs of our counterparty clients on the other.

We establish administrative management trusts pursuant to the instructions of certain trustors and provide financing to real estate development projects, infrastructure projects, and various industrial and commercial enterprises chosen by such trustors. In these trusts, we merely provide trust administration-related services and accept entrustment of trust assets from trustors and use such trust assets to provide financing for the projects or enterprises designated by the trustors. Based on the role we take on in administrative management trusts, the trustee's remuneration payable to us as stipulated in substantially

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all of the administrative management trust contracts is either based on the trust AUM upon entrustment of the trust assets (i.e. the value of the relevant trust assets at the respective time they were entrusted to us) or a fixed amount.

Similar to all other trusts, under PRC laws and regulations, as the trustee, we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee. Therefore, under administrative management trusts, unless we fails to properly fulfill our duty as a trustee, risk of loss from loans and other investments made by the trust schemes are borne by their beneficiaries.

Shandong Provincial Infrastructure Fund Trust was an example of our administrative management trusts. It was an individual, property rights trust whereby the Shandong provincial government entrusted a portion of its investments in infrastructure development projects to us. We merely provide trust administration-related services to the trust. As of December 31, 2014, 2015, 2016 and May 31, 2017, total AUM of the Shandong Provincial Infrastructure Fund Trust amounted to RMB13,457.9 million, RMB13,625.2 million, RMB13,428.8 million and RMB6,842.4 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from Shandong Provincial Infrastructure Fund Trust was RMB20.2 million, RMB33.6 million, RMB30.7 million, RMB6.9 million and RMB20.6 million, respectively. We and the Shandong provincial government have reached a preliminary agreement to terminate this trust in the near future.

Individual administrative management trusts set up for trustors that are corporate and institutional investors constituted a significant portion of our trust business during the Track Record Period. The aggregate AUM of our individual administrative management trusts for trustors that are corporate and institutional investors accounted for 96.0%, 95.3%, 94.2% and 97.1% of all of our administrative management trusts and 81.2%, 79.6%, 71.3% and 66.5% of all trusts under our management as of December 31, 2014, 2015 and 2016 and May 31, 2017, respectively. In particular, the aggregate AUM of our individual administrative management trusts for trustors that are financial institutions accounted for 82.9%, 74.2%, 76.0% and 74.4% of all of our administrative management trusts and 70.1%, 62.0%, 57.5% and 51.0% of all trusts under our management as of December 31, 2014, 2015 and 2016 and May 31, 2017, respectively. Given the significance of corporate and institutional investors, in particular financial institutions, to our trust business, our ability to continue to retain and attract such trustor clients will have a material impact on our business, financial condition and results of operation. See “Risk Factors — Risks Relating to Our Business and Industry — The volume of, and revenue from, our administrative management trusts may continue to decline, which will have an adverse effect on our business, financial condition and results of operation.”

Corporate and institutional investors, including financial institutions, have used our administrative management trusts for various reasons. Under the PRC laws and regulations, different types of financial institutions are subject to different restrictions on

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their business activities. For example, according to the Notice of CBRC on Relevant Issues regarding Further Regulating the Investment and Management of Individual Wealth Management Business of Commercial Banks (中國銀監會關於進一步規範商業銀行個人理財業務投資管理有關問題的通知), commercial banks are not allowed to utilize funds raised via the issuance of wealth management products to individual clients to (i) make direct equity investments in unlisted companies or investment in the shares of listed companies that were privately issued or traded, nor (ii) invest directly in stocks publicly traded in the secondary market or relevant securities investment funds in the PRC. In practice, commercial banks do not utilize funds raised via the issuance of wealth management products to individual clients to provide direct loans to customers either. They are, however, allowed to cooperate with trust companies licensed by the CBRC, such as us, to set up trust schemes that provide loans to customers using funds raised via the issuance of their wealth management products to individual clients.

While commercial banks in China may both trade in the inter-bank bond market using their proprietary funds and use funds raised via the issuance of their wealth management products to invest in bond market products, they are required to separately manage (i) funds received from clients via the issue of wealth management products, and (ii) their proprietary funds and investment. Under the PRC Trust Law, once the trustors lawfully entrust their assets to us as the trustee, such assets become assets of the trust, or trust assets, which are separated from the assets of the trustors. As such, commercial banks normally prefer to set up administrative management trusts and entrust the funds received from their wealth management products to us, which allows them to achieve the required separation between such funds and their proprietary funds. These banks use our trusts also because of our experience in handling matters relating to such bonds' trading, valuation and settlement, and our services help them reduce operational costs. Our services in these trusts would be similar to brokerage services for these investors and their sale and purchase orders are executed through us.

We believe the advantages arising from the possession of our trust license, the flexibility of our trust arrangements and our extensive experience in providing administrative management trust services to satisfy the changing needs of other financial institutions are among the primary reasons that they choose to set up administrative management trusts with us.

While we expect our administrative management trust business that allows our trustor clients to utilize our license will continue in the future, we are actively exploring new types of administrative management trust business whereby our trustor clients mainly rely on our creditworthiness and the quality of our trustee services.

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As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 775, 538, 523 and 522 administrative management trusts in existence with trust AUM of RMB276,502 million, RMB201,075 million, RMB192,665 million and RMB174,422 million, respectively. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, our income from administrative management trusts was RMB678.0 million, RMB540.5 million, RMB372.2 million, RMB147.6 million and RMB150.3 million, respectively. The trust AUM of our administrative management trust and our income from such trusts generally decreased during the Track Record Period as we continuously shifted our focus to actively managed trust business which command a higher rate of trustee's remuneration, and enhanced our active management capabilities to expand our actively managed trusts.

The following table sets forth the trust AUM of our financing-oriented administrative management trusts and investment-oriented administrative management trusts as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
Financing-oriented administrative management trusts	180,141	65.2	117,587	58.5	123,760	64.2	116,351	66.7
Investment-oriented administrative management trusts	96,361	34.8	83,488	41.5	68,905	35.8	58,071	33.3
Total administrative management trusts	<u>276,502</u>	<u>100.0</u>	<u>201,075</u>	<u>100.0</u>	<u>192,665</u>	<u>100.0</u>	<u>174,422</u>	<u>100.0</u>

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Most of our administrative management trusts are individual trusts. The aggregate AUM of our individual administrative management trusts accounted for 96.8%, 95.9%, 94.9% and 97.8% of the total AUM of our administrative management trusts as of December 31, 2014, 2015 and 2016 and May 31, 2017, respectively. The following table sets forth a breakdown of the aggregate AUM of our individual administrative management trusts by different type of trustor clients as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
(RMB in million, except percentage)								
Financing-oriented individual administrative management trusts:								
Breakdown by type of trustors:								
– Corporate and institutional investors:								
<i>Financial institutions</i>	154,147	57.62	88,159	45.73	99,225	54.29	88,832	52.06
<i>Others</i>	15,906	5.95	20,673	10.72	15,236	8.34	24,623	14.43
<i>Subtotal</i>	170,052	63.56	108,831	56.45	114,461	62.63	113,455	66.49
– HNWLs	1,853	0.69	967	0.50	1,076	0.59	1,054	0.62
Subtotal	171,905	64.25	109,798	56.95	115,538	63.22	114,509	67.10
Investment-oriented individual administrative management trusts:								
Breakdown by type of trustors:								
– Corporate and institutional investors:								
<i>Financial institutions</i>	75,070	28.06	61,130	31.71	47,249	25.85	41,020	24.04
<i>Others</i>	20,423	7.63	21,567	11.19	19,757	10.81	14,848	8.70
<i>Subtotal</i>	95,493	35.69	82,697	42.90	67,007	36.66	55,868	32.74
– HNWLs	144	0.05	289	0.15	215	0.12	265	0.16
Subtotal	95,637	35.75	82,986	43.05	67,222	36.78	56,133	32.90
Total	267,542	100	192,784	100	182,760	100	170,642	100

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The following table sets forth the breakdown of the financial products invested by our investment-oriented administrative management trusts as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
(RMB in million, except percentage)								
Equity financial products	98	0.1	46	0.1	476	0.7	926	1.6
Fixed income financial products ⁽¹⁾	36,517	37.9	40,910	49.0	39,622	57.5	33,772	58.1
Other mixed financial products	59,746	62.0	42,532	50.9	28,807	41.8	23,373	40.3
– Property rights ⁽²⁾	28,766	29.9	20,683	24.7	16,505	23.9	9,793	16.9
– Wealth management products	25,667	26.6	20,033	24.0	8,668	12.6	8,526	14.7
– Others ⁽³⁾	5,313	5.5	1,816	2.2	3,634	5.3	5,054	8.7
Total investment-oriented administrative management trusts	96,361	100.0	83,488	100.0	68,905	100.0	58,071	100.0

Notes:

- (1) Substantially all fixed income products our investment-oriented administrative management trusts invested were bonds.
- (2) Property rights included real estate, equity rights and creditors' rights.
- (3) Primarily represented investments in limited liability partnerships.

The following table sets forth the breakdown of our administrative management trusts in terms of remaining maturity of such trusts as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
(RMB in million, except percentage)								
Within one year	169,345	61.2	109,848	54.6	92,667	48.1	90,673	52.0
One to two years	59,608	21.6	33,300	16.6	43,322	22.5	32,778	18.8
More than two years	47,549	17.2	57,927	28.8	56,676	29.4	50,971	29.2
Total	276,502	100.0	201,075	100.0	192,665	100.0	174,422	100.0

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The following table sets forth the breakdown of our administrative management trusts in terms of counterparties' industry category as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
Real estate	47,872	17.3	24,389	12.1	12,051	6.3	11,305	6.5
Government platform and infrastructure	67,882	24.6	50,635	25.2	45,060	23.4	34,934	20.0
Industrial and commercial enterprises	121,176	43.8	85,095	42.3	94,426	49.0	92,876	53.3
Others ⁽¹⁾	39,572	14.3	40,956	20.4	41,128	21.3	35,307	20.2
Total	276,502	100.0	201,075	100.0	192,665	100.0	174,422	100.0

Note:

(1) Such trusts were invested in financial products, including bonds, equities and wealth management products.

The following table sets forth the breakdown of our administrative management trusts in terms of geographical regions in which the counterparties of such trusts were located as of the dates indicated:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
East China	133,544	48.3	107,175	53.3	102,666	53.3	91,970	52.7
North China	61,975	22.4	29,152	14.5	25,552	13.3	22,450	12.9
South China	16,580	6.0	5,806	2.9	5,747	3.0	8,401	4.8
Southwest China	7,266	2.6	3,231	1.6	3,290	1.7	2,749	1.6
Central China	7,640	2.8	9,409	4.7	5,555	2.9	4,964	2.8
Northeast China	8,548	3.1	3,980	2.0	5,078	2.6	6,397	3.7
Northwest China	888	0.3	877	0.4	3,649	1.9	2,184	1.3
Others ⁽¹⁾	40,061	14.5	41,445	20.6	41,128	21.3	35,307	20.2
Total	276,502	100.0	201,075	100.0	192,665	100.0	174,422	100.0

Note:

(1) Such trusts include (i) administrative management trusts which invested in financial products, including bonds, equities and wealth management products; and (ii) administrative management trusts that the counterparties of such trusts were located in multiple areas.

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The following table sets forth the breakdown of our administrative management trusts in terms of the level of security provided for the financing as of the dates indicated:

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in million, except percentage)							
Secured by collateral · · · · ·	110,535	40.0	70,931	35.3	45,317	23.5	38,843	22.3
Secured by guarantee · · · · ·	44,223	16.0	26,366	13.1	27,853	14.5	39,736	22.8
Unsecured · · · · ·	82,172	29.7	62,822	31.2	78,367	40.7	60,536	34.7
Others ⁽¹⁾ · · · · ·	39,572	14.3	40,956	20.4	41,128	21.3	35,307	20.2
Total · · · · ·	276,502	100.0	201,075	100.0	192,665	100.0	174,422	100.0

Note:

(1) Such trusts were invested in financial products, including bonds, equities and wealth management products.

The aggregate AUM attributable to our top ten administrative management trusts (in terms of AUM) as a percentage of all administrative management trusts during the Track Record Period are summarized as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
AUM · · · · ·	23.3%	36.3%	34.7%	28.7%

The aggregate revenue (i.e. trustee remuneration) attributable to our top ten administrative management trusts in terms of revenue as a percentage of all administrative management trusts during the Track Record Period are summarized as follows:

	For the year ended December 31,			For the five months ended May 31,
	2014	2015	2016	2017
Revenue · · · · ·	15.3%	24.9%	39.1%	47.3%

More than half of the Company's top ten administrative management trusts are individual trusts, one of which is the Shandong Provincial Infrastructure Fund Trust mentioned above.

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The following tables summarized the information on our top ten administrative management trusts in terms of AUM for the periods indicated.

As of and for the year ended December 31, 2014								
Trust scheme	Counterparty ⁽¹⁾			Trustor			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Administrative management trust-C	N/A ⁽²⁾	N/A	N/A	Trustor A	No	Financial institution	22,247	10
Administrative management trust-A	Counterparty A	Yes	Government ⁽³⁾ Authority	Trustor B	Yes	Government authority	13,458	20
Administrative management trust-K	Counterparty G	Yes	Infrastructure	Multiple trustors ⁽⁷⁾	N/A	N/A	5,050	4
Administrative management trust-L	N/A ⁽²⁾	N/A	N/A	Trustor C	Yes	Financial institution	4,534	1
Administrative management trust-M	Counterparty H	Yes	Chemical Industry	Trustor D	Yes	Financial institution	4,500	5
Administrative management trust-F ⁽⁴⁾	Counterparty B	Yes	Steel	Trustor E	Yes	Financial institution	3,000	9
Administrative management trust-G ⁽⁴⁾	Counterparty C1,	Yes	Counterparty C1: Mining	Trustor F	Yes	Financial institution	3,000	5
	Counterparty C2	Yes	Counterparty C2: Mining					
Administrative management trust-H ⁽⁴⁾	Counterparty D1,	Yes	Counterparty D1: Infrastructure	Trustor G	No	Financial institution	3,000	5
	Counterparty D2	Yes	Counterparty D2: Assets Management					
Administrative management trust-N ⁽⁵⁾	N/A ⁽⁶⁾	N/A	N/A	Trustor H	Yes	Financial institution	2,831	0
Administrative management trust-O ⁽⁴⁾	Counterparty I	No	Real Estate	Trustor U	Yes	Financial institution	2,800	9
<i>Subtotal</i>							64,420	68
As percentage of all administrative management trusts							23.3%	10.0%

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust, or the entity providing the financial products in which the applicable trust invested, unless otherwise indicated.
- (2) Such administrative management trust was invested in bonds and other financial products.
- (3) Refers to the party with which the applicable trust directly transacted, in this case being the government authority that entrusted its property rights to our Company and in turn received income from the applicable trust.
- (4) As of December 31, 2016, this administrative management trust was liquidated.
- (5) The income from administrative management trust-N amounted to RMB0.03 million.
- (6) Such administrative management trust was invested in wealth management products.
- (7) Such trust has 2 corporate trustors who are SOEs and financial institutions.

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As of and for the year ended December 31, 2015

Trust scheme	Counterparty ⁽¹⁾			Trustor			AUM	Revenue
	Name	Whether a	Industry	Name	Whether a	Industry	RMB in million	RMB in million
		state-owned enterprise or not			state-owned enterprise or not			
Administrative management trust-C	N/A ⁽²⁾	N/A	N/A	Trustor A	No	Financial institution	17,970	16
Administrative management trust-L	N/A ⁽²⁾	N/A	N/A	Trustor C	Yes	Financial institution	14,213	14
Administrative management trust-A	Counterparty A	Yes	Government Authority ⁽³⁾	Trustor B	Yes	Government authority	13,625	34
Administrative management trust-P	Counterparty J	Yes	Financial Institution	Trustor J	No	Financial institution	7,678	1
Administrative management trust-K	Counterparty G	Yes	Infrastructure	Multiple trustors ⁽⁵⁾	N/A	N/A	5,050	13
Administrative management trust-M	Counterparty H	Yes	Chemical Industry	Trustor D	Yes	Financial institution	4,500	6
Administrative management trust-O ⁽⁴⁾	Counterparty I	No	Real Estate	Trustor U	Yes	Financial institution	2,800	11
Administrative management trust-J ⁽⁴⁾	Counterparty F	No	Real Estate	Trustor K	Yes	Financial institution	2,600	8
Administrative management trust-Q	Counterparty K	Yes	Financial Institution	Trustor L	No	Financial institution	2,500	2
Administrative management trust-R	Counterparty L	Yes	Financial Institution	Trustor L	No	Financial institution	2,000	2
<i>Subtotal</i>							72,936	107
As percentage of all administrative management trusts							36.3%	19.8%

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust, or the entity providing the financial products in which the applicable trust invested, unless otherwise indicated.
- (2) Such administrative management trust was invested in bonds and other financial products.
- (3) Refers to the party with which the applicable trust directly transacted, in this case being the government authority that entrusted its property rights to our Company and in turn received income from the applicable trust.
- (4) As of December 31, 2016, this administrative management trust was liquidated.
- (5) Such trust has 2 corporate trustors who are SOEs and financial institutions.

BUSINESS

As of and for the year ended December 31, 2016

Trust scheme	Counterparty ⁽¹⁾			Trustor			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Administrative management trust-L	N/A ⁽²⁾	N/A	N/A	Trustor C	Yes	Financial institution	18,542	25
Administrative management trust-A	Counterparty A	Yes	Government Authority ⁽³⁾	Trustor B	Yes	Government authority	13,429	31
Administrative management trust-C	N/A ⁽²⁾	N/A	N/A	Trustor A	No	Financial institution	11,878	12
Administrative management trust-P	Counterparty J	Yes	Financial Institution	Trustor J	No	Financial institution	6,620	15
Administrative management trust-K	Counterparty G	Yes	Infrastructure	Multiple trustors ⁽⁵⁾	N/A	N/A	5,050	7
Administrative management trust-M	Counterparty H	Yes	Chemical Industry	Trustor D	Yes	Financial institution	4,500	6
Administrative management trust-R	Counterparty L	Yes	Financial Institution	Trustor L	No	Financial institution	2,000	2
Administrative management trust-E	N/A ⁽²⁾	N/A	N/A	Trustor N	Yes	Financial institution	1,692	3
Administrative management trust-T	Counterparty N1,	Yes,	Investment and infrastructure,	Trustor O	No	Financial institution	1,580	0 ⁽⁴⁾
	Counterparty N2,	Yes,	Investment and construction,					
	Counterparty N3,	Yes,	Asset management and construction,					
	Counterparty N4,	Yes,	Asset management,					
	Counterparty N5	Yes	Real estate					
Administrative management trust-V	Counterparty O	No	IT	Trustor P	Yes	Financial institution	1,500	1
<i>Subtotal</i>							66,791	102
As percentage of all administrative management trusts							34.7%	27.3%

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust, or the entity providing the financial products in which the applicable trust invested, unless otherwise indicated.
- (2) Such administrative management trust was invested in bonds and other financial products.
- (3) Refers to the party with which the applicable trust directly transacted, in this case being the government authority that entrusted its property rights to our Company and in turn received income from the applicable trust.
- (4) The income from administrative management trust-T amounted to RMB0.4 million.
- (5) Such trust has 2 corporate trustors who are SOEs and financial institutions.

BUSINESS

As of and for the five months ended May 31, 2017

Trust scheme	Counterparty ⁽¹⁾			Trustor			AUM	Revenue
	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry	RMB in million	RMB in million
Administrative management trust-L	N/A ⁽²⁾	N/A	N/A	Trustor C	Yes	Financial institution	14,525	9
Administrative management trust-C	N/A ⁽²⁾	N/A	N/A	Trustor A	No	Financial institution	9,109	4
Administrative management trust-A	Counterparty A	Yes	Government authority ⁽³⁾	Trustor B	Yes	Government authority	6,842	21
Administrative management trust-P	Counterparty J	Yes	Financial institution	Trustor J	No	Financial institution	6,068	5
Administrative management trust-M	Counterparty H	Yes	Chemical industry	Trustor D	Yes	Financial institution	4,500	2
Administrative management trust-T	Counterparty N1,	Yes,	Investment and infrastructure,	Trustor O	No	Financial institution	2,465	3
	Counterparty N2,	Yes,	Investment and construction,					
	Counterparty N3,	Yes,	Asset management and construction,					
	Counterparty N4,	Yes,	Asset management,					
	Counterparty N5	Yes	Real estate					
Administrative management trust-R	Counterparty L	Yes	Financial institution	Trustor L	No	Financial institution	2,000	1
Administrative management trust-E	N/A ⁽²⁾	N/A	N/A	Trustor N	Yes	Financial institution	1,656	1
Administrative management trust-U	Counterparty P	No	Wholesaling and retailing	Trustor Q	No	Investment	1,495	1
Administrative management trust-W	N/A ⁽²⁾	N/A	N/A	Trustor R	No	Financial institution	1,452	1
<i>Subtotal</i>							50,112	47
As percentage of all administrative management trusts							28.7%	31.3%

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust, or the entity providing the financial products in which the applicable trust invested, unless otherwise indicated.
- (2) Such administrative management trust was invested in bonds and other financial products.
- (3) Refers to the party with which the applicable trust directly transacted, in this case being the government authority that entrusted its property rights to our Company and in turn received income from the applicable trust.

BUSINESS

The backgrounds of counterparties of our top ten financing-oriented administrative management trusts in terms of AUM are summarized as follows:

Trust scheme	As of and for the year ended December 31, 2014							
	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-K	5,050	4	Counterparty K	Yes	Infrastructure	Multiple trustors ⁽⁶⁾	N/A	N/A
Financing-oriented administrative management trust-L	4,500	5	Counterparty L	Yes	Chemical Industry	Trustor A	Yes	Financial institution
Financing-oriented administrative management trust-A	3,000	9	Counterparty A	Yes	Steel	Trustor B	Yes	Financial institution
Financing-oriented administrative management trust-B	3,000	5	Counterparty B1, Counterparty B2	Yes, Yes	Mining, Mining	Trustor C	Yes	Financial institution
Financing-oriented administrative management trust-C	3,000	5	Counterparty C1, Counterparty C2	Yes, Yes	Infrastructure, Asset management	Trustor D	No	Financial institution
Financing-oriented administrative management trust-E	2,600	9	Counterparty E	No	Real estate	Trustor E	Yes	Financial institution
Financing-oriented administrative management trust-D	2,500	2	Counterparty D	Yes	Infrastructure	Trustor F	No	Financial institution
Financing-oriented administrative management trust-M	2,199	6	Multi-counterparty	Both	Multi-industry	Trustor G	No	Financial institution
Financing-oriented administrative management trust-H	2,000	5	Counterparty H	No	Hotel	Trustor H	No	Financial institution
Financing-oriented administrative management trust-I	2,000	5	Counterparty I	No	Real estate	Trustor I	Yes	Financial institution
As percentage of all administrative management trusts	10.8%	8.1%						

BUSINESS

As of and for the year ended December 31, 2015								
Trust scheme	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-N	7,678	1	Counterparty N	Yes	Financial Institution	Trustor J	No	Financial institution
Financing-oriented administrative management trust-K	5,050	13	Counterparty K	Yes	Infrastructure	Multiple trustors ⁽⁶⁾	N/A	N/A
Financing-oriented administrative management trust-L	4,500	6	Counterparty L	Yes	Chemical Industry	Trustor A	Yes	Financial institution
Financing-oriented administrative management trust-E	2,600	8	Counterparty E	No	Real estate	Trustor E	Yes	Financial institution
Financing-oriented administrative management trust-F	1,996	8	Counterparty F	Yes	Infrastructure	Trustor K	Yes	Financial institution
Financing-oriented administrative management trust-H	1,985	5	Counterparty H	No	Hotel	Trustor H	No	Financial institution
Financing-oriented administrative management trust-O	1,644	9	Counterparty O	Yes	Infrastructure	Trustor L	Yes	Government authority
Financing-oriented administrative management trust-D	1,563	2	Counterparty D	Yes	Infrastructure	Trustor F	No	Financial institution
Financing-oriented administrative management trust-M	1,551	5	Multi- counterparty	Both	Multi-industry	Trustor G	No	Financial institution
Financing-oriented administrative management trust-P	1,550	3	Counterparty P	No	Real estate	Trustor M	Yes	Financial institution
As percentage of all administrative management trusts	15.0%	11.0%						

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As of and for the year ended December 31, 2016								
Trust scheme	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether SOE	Industry	Name	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-N	6,620	15	Counterparty N	Yes	Financial Institution	Trustor J	No	Financial institution
Financing-oriented administrative management trust-K	5,050	7	Counterparty K	Yes	Infrastructure	Multiple trustors ⁽⁶⁾	N/A	N/A
Financing-oriented administrative management trust-L	4,500	6	Counterparty L	Yes	Chemical Industry	Trustor A	Yes	Financial institution
Financing-oriented administrative management trust-W	1,580	0 ⁽²⁾	Counterparty W1,	Yes,	Investment and Infrastructure,	Trustor Q	No	Financial institution
			Counterparty W2,	Yes,	Investment and Construction,			
			Counterparty W3,	Yes,	Asset management and construction,			
			Counterparty W4,	Yes,	Asset management,			
			Counterparty W5	Yes	Real estate			
Financing-oriented administrative management trust-R	1,500	1	Counterparty R	No	IT	Trustor O	Yes	Financial institution
Financing-oriented administrative management trust-S	1,500	1	Counterparty S	No	Wholesaling and retailing	Trustor O	Yes	Financial institution
Financing-oriented administrative management trust-T	1,500	1	Counterparty T	No	Wholesaling and retailing	Trustor O	Yes	Financial institution
Financing-oriented administrative management trust-U	1,495	1	Counterparty U	No	Wholesaling and retailing	Trustor P	No	Investment
Financing-oriented administrative management trust-X	1,383	0 ⁽³⁾	Counterparty N	Yes	Financial Institution	Trustor R	No	Financial institution
Financing-oriented administrative management trust-V	1,380	4	Counterparty V	No	Construction	Trustor I	Yes	Financial institution
As percentage of all administrative management trusts	13.8%	9.6%						

BUSINESS

As of and for the five months ended May 31, 2017

Trust scheme	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
	Financing-oriented administrative management trust-N	6,068	5	Counterparty N	Yes	Financial Institution	Trustor J	No
Financing-oriented administrative management trust-L	4,500	2	Counterparty L	Yes	Chemical Industry	Trustor A	Yes	Financial institution
Financing-oriented administrative management trust-W	2,465	3	Counterparty W1,	Yes,	Investment and Infrastructure,	Trustor Q	No	Financial institution
		Counterparty W2,	Yes,	Investment and Construction,				
		Counterparty W3,	Yes,	Asset management and construction,				
		Counterparty W4,	Yes,	Asset management,				
		Counterparty W5,	Yes	Real estate				
Financing-oriented administrative management trust-U	1,495	1	Counterparty U	No	Wholesaling and retailing	Trustor P	No	Investment
Financing-oriented administrative management trust-Y	1,200	1	Counterparty Y	No	Wholesaling and retailing	Trustor P	No	Investment
Financing-oriented administrative management trust-Z	1,100	1	Counterparty Z	Yes	Asset management	Multiple trustors ⁽⁷⁾	N/A	N/A
Financing-oriented administrative management trust-AA	1,100	1	Counterparty AA	Yes	Government Authority	Trustor S	No	Financial institution
Financing-oriented administrative management trust-AB	1,100	0 ⁽⁴⁾	Counterparty AB	Yes	Hotel	Trustor I	Yes	Financial institution
Financing-oriented administrative management trust-X	1,052	1	Counterparty N	Yes	Financial Institution	Trustor R	No	Financial institution

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As of and for the five months ended May 31, 2017								
Trust scheme	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-AC	1,024	0 ⁽⁵⁾	Counterparty AC1,	No,	Asset management,	Trustor H	No	Financial institution
			Counterparty AC2	No	Asset management			
<i>Subtotal</i>	21,104	15						
As percentage of all administrative management trusts	12.1%	10.0%						

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the borrower of a loan granted by the applicable trust.
- (2) The revenue of such trust amounted to RMB0.4 million.
- (3) The revenue of such trust amounted to RMB0.2 million.
- (4) The revenue of such trust amounted to RMB0.4 million.
- (5) The revenue of such trust amounted to RMB0.5 million.
- (6) Such trust has 2 corporate trustors who are SOEs and financial institutions.
- (7) Such trust has 2 corporate trustors who are SOEs, one of which is a financial institution and the other is a government authority.

For illustrative purpose, we summarize below collateral and guarantee information on our top ten financing-oriented administrative management trusts in terms of AUM as of the respective dates indicated.

As of December 31, 2014						
Trust scheme	AUM	Collateral nature	Fair value of collateral ⁽¹⁾	Type	Guarantor	
					Whether a state-owned enterprise or not	Industry
	(RMB in million)		(RMB in million)			
Financing-oriented administrative management trust-K	5,050	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-L	4,500	None	N/A	None	N/A	N/A

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As of December 31, 2014

Trust scheme	AUM (RMB in million)	Collateral nature	Fair value of collateral ⁽¹⁾ (RMB in million)	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-A	3,000	None	N/A	Corporate A	Yes	Steel
Financing-oriented administrative management trust-B	3,000	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-C	3,000	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-E	2,600	Land use right	5,217	Corporate B, Individual	No, N/A	Real estate, N/A
Financing-oriented administrative management trust-D	2,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-M	2,199	Mainly including properties and land use rights	96	Multiple Corporates and individuals	No	Multi- industry
Financing-oriented administrative management trust-H	2,000	Properties	4,265	Corporate C1, Corporate C2	No, No	Real estate, Real estate
Financing-oriented administrative management trust-I	2,000	None	N/A	None	N/A	N/A
As percentage of all administrative management trusts	10.8%					

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As of December 31, 2015

Trust scheme	AUM (RMB in million)	Collateral nature	Fair value of collateral ⁽¹⁾ (RMB in million)	Guarantor		
				Type	Whether a state-owned enterprise or not	Industry
Financing-oriented administrative management trust-N	7,678	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-K	5,050	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-L	4,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-E	2,600	Land use right	5,217	Corporate B, Individuals	No, N/A	Real estate, N/A
Financing-oriented administrative management trust-F	1,996	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-H	1,985	Properties	4,265	Corporate C1, Corporate C2	No, No	Real estate, Real estate
Financing-oriented administrative management trust-O	1,644	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-D	1,563	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-M	1,551	Mainly including properties and land use rights	96	Multiple Corporates and individuals	No	Multi- industry
Financing-oriented administrative management trust-P	1,550	Land use rights and property	4,235	Individuals	N/A	N/A
As percentage of all administrative management trusts	15.0%					

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As of December 31, 2016

Trust scheme	AUM (RMB in million)	Collateral nature	Fair value of collateral ⁽¹⁾ (RMB in million)	Guarantor		
				Type	Whether a SOE	Industry
Financing-oriented administrative management trust-N	6,620	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-K	5,050	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-L	4,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-W	1,580	Land use right	1,010	Multiple corporates	Including both	Infrastructure
Financing-oriented administrative management trust-R	1,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-S	1,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-T	1,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-U	1,495	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-X	1,383	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-V	1,380	Land use right, property	2,803	Corporate F	No	Real estate
As percentage of all administrative management trusts	13.8%					

BUSINESS

As of May 31, 2017

Trust scheme	As of May 31, 2017					
	AUM	Collateral nature	Fair value of collateral ⁽¹⁾	Guarantor		
				Type	Whether a SOE	Industry
	(RMB in million)		(RMB in million)			
Financing-oriented administrative management trust-N	6,068	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-L	4,500	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-W	2,465	Land use right	1,010	Multiple corporates	Including both	Infrastructure
Financing-oriented administrative management trust-U	1,495	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-Y	1,200	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-Z	1,100	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-AA	1,100	Land use right	2,600	None	N/A	N/A
Financing-oriented administrative management trust-AB	1,100	Construction in progress	1,981	Corporate G	Yes	Energy
Financing-oriented administrative management trust-X	1,052	None	N/A	None	N/A	N/A
Financing-oriented administrative management trust-AC	1,024	Equity interest	2,048	None	N/A	N/A
<i>Subtotal</i>	21,104					
As percentage of all administrative management trusts	12.1%					

Note:

(1) Valued at the time when such collateral was provided in connection with the loans granted by our trusts.

BUSINESS

The following table sets forth the information on our top ten investment-oriented administrative management trusts in terms of AUM as of the respective dates indicated.

Trust scheme	As of and for the year ended December 31, 2014							
	AUM	Revenue	Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
Investment-oriented administrative management trust-C	22,247	10	N/A ⁽⁴⁾	N/A	N/A	Trustor A	No	Financial institution
Investment-oriented administrative management trust-A	13,458	20	Counterparty A	Yes	Government authority	Trustor B	Yes	Government authority
Investment-oriented administrative management trust-K	4,534	1	N/A ⁽⁴⁾	N/A	N/A	Trustor C	Yes	Financial institution
Investment-oriented administrative management trust-L	2,831	0 ⁽¹⁰⁾	N/A ⁽²⁾	N/A	N/A	Trustor D	Yes	Financial institution
Investment-oriented administrative management trust-M	2,800	9	Counterparty D	No	Real estate	Trustor E	Yes	Financial institution
Investment-oriented administrative management trust-N	2,500	0 ⁽¹¹⁾	Counterparty B	Yes	Financial institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-O	2,000	0 ⁽¹²⁾	Counterparty E	Yes	Financial institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-E	1,951	3	N/A ⁽⁴⁾	N/A	N/A	Trustor G	Yes	Financial institution
Investment-oriented administrative management trust-G	1,500	2	N/A ⁽⁷⁾	N/A	N/A	Transferred from Trustor H1 to H2	Yes, Yes	Financial institution, Financial institution
Investment-oriented administrative management trust-H	1,500	2	Counterparty C	No	Real estate	Trustor I	No	Financial institution
As percentage of all administrative management trusts	20.0%	7.0%						

BUSINESS

As of and for the year ended December 31, 2015

Trust scheme	AUM		Counterparty ⁽¹⁾			Trustor		
	Revenue			Whether a state-owned enterprise or not	Industry		Whether a state-owned enterprise or not	Industry
	RMB in million	RMB in million	Name			Name		
Investment-oriented administrative management trust-C	17,970	16	N/A ⁽⁴⁾	N/A	N/A	Trustor A	No	Financial institution
Investment-oriented administrative management trust-K	14,213	14	N/A ⁽⁴⁾	N/A	N/A	Trustor C	Yes	Financial institution
Investment-oriented administrative management trust-A	13,625	34	Counterparty A	Yes	Government authority	Trustor B	Yes	Government authority
Investment-oriented administrative management trust-M	2,800	11	Counterparty D	No	Real estate	Trustor E	Yes	Financial institution
Investment-oriented administrative management trust-N	2,500	2	Counterparty B	Yes	Financial institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-O	2,000	2	Counterparty E	Yes	Financial institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-G	1,500	2	N/A ⁽⁷⁾	N/A	N/A	Transferred from Trustor H1 to H2	Yes, Yes	Financial institution, Financial institution
Investment-oriented administrative management trust-E	1,495	3	N/A ⁽⁴⁾	N/A	N/A	Trustor G	Yes	Financial institution
Investment-oriented administrative management trust-P	1,198	0 ⁽¹³⁾	N/A ⁽⁴⁾	N/A	N/A	Trustor J	Yes	Asset management
Investment-oriented administrative management trust-Q	1,010	2	Counterparty G	Yes	Infrastructure	Trustor K	No	Investment
As percentage of all administrative management trusts	29.0%	15.7%						

BUSINESS

As of and for the year ended December 31, 2016

Trust scheme	AUM		Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether SOE	Industry	Name	Whether a state-owned enterprise or not	Industry
	Investment-oriented administrative management trust-K	18,542	25	N/A ⁽⁴⁾	N/A	N/A	Trustor C	Yes
Investment-oriented administrative management trust-A	13,429	31	Counterparty A	Yes	Government authority ⁽¹⁴⁾	Trustor B	Yes	Government authority
Investment-oriented administrative management trust-C	11,878	12	N/A ⁽⁴⁾	N/A	N/A	Trustor A	No	Financial institution
Investment-oriented administrative management trust-O	2,000	2	Counterparty E	Yes	Financial Institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-E	1,692	3	N/A ⁽⁴⁾	N/A	N/A	Trustor G	Yes	Financial institution
Investment-oriented administrative management trust-U	1,200	0 ⁽³⁾	N/A ⁽⁴⁾	N/A	N/A	Trustor O	No	Financial institution
Investment-oriented administrative management trust-V	1,199	0 ⁽⁵⁾	Counterparty I	Yes	Financial Institution	Trustor P	No	Financial institution
Investment-oriented administrative management trust-P	1,062	0 ⁽⁶⁾	N/A ⁽⁴⁾	N/A	N/A	Trustor J	Yes	Asset management
Investment-oriented administrative management trust-R	900	2	N/A ⁽⁴⁾	N/A	N/A	Trustor L	No	Financial institution
Investment-oriented administrative management trust-T	800	1	Counterparty H	Yes	Financial Institution	Trustor N	Yes	Financial institution
As percentage of all administrative management trusts	27.4%	20.1%						

BUSINESS

As of and for the five months ended May 31, 2017

Trust scheme	AUM		Counterparty ⁽¹⁾			Trustor		
	RMB in million	RMB in million	Name	Whether a state-owned enterprise or not	Industry	Name	Whether a state-owned enterprise or not	Industry
	Investment-oriented administrative management trust-K	14,525	9	N/A ⁽⁴⁾	N/A	N/A	Trustor C	Yes
Investment-oriented administrative management trust-C	9,109	4	N/A ⁽⁴⁾	N/A	N/A	Trustor A	No	Financial institution
Investment-oriented administrative management trust-A	6,842	21	Counterparty A	Yes	Government authority	Trustor B	Yes	Government authority
Investment-oriented administrative management trust-O	2,000	1	Counterparty E	Yes	Financial institution	Trustor F	No	Financial institution
Investment-oriented administrative management trust-E	1,656	1	N/A ⁽⁴⁾	N/A	N/A	Trustor G	Yes	Financial institution
Investment-oriented administrative management trust-U	1,452	1	N/A ⁽⁴⁾	N/A	N/A	Trustor O	No	Financial institution
Investment-oriented administrative management trust-W	1,400	0 ⁽⁸⁾	Counterparty J	No	Financial institution	Trustor Q	No	Asset management
Investment-oriented administrative management trust-X	1,247	0 ⁽⁹⁾	Counterparty K	No	Asset management	Trustor Q	No	Asset management
Investment-oriented administrative management trust-V	1,199	1	Counterparty I	Yes	Financial institution	Trustor P	No	Financial institution
Investment-oriented administrative management trust-R	950	1	N/A ⁽⁴⁾	N/A	N/A	Trustor L	No	Financial institution
<i>Subtotal</i>	40,381	38						
As percentage of all administrative management trusts	23.2%	25.3%						

Notes:

- (1) Refers to the party with which the applicable trust directly transacted, in this case, being the entity providing the financial products in which the applicable trust invested, unless otherwise indicated.
- (2) Such trust invested in wealth management products.
- (3) The revenue from this trust amounted to RMB0.1 million.
- (4) Such trust invested in bonds and other financial products.
- (5) The revenue from this trust amounted to RMB0.2 million.
- (6) The revenue from this trust amounted to RMB0.4 million.
- (7) Such trust invested in bonds.
- (8) The revenue from such trust amounted to RMB0.2 million.
- (9) The revenue from such trust amounted to RMB0.1 million.
- (10) The revenue from such trust amounted to RMB0.03 million.
- (11) The revenue from such trust amounted to RMB0.1 million.
- (12) The revenue from such trust amounted to RMB0.1 million.
- (13) The revenue from such trust amounted to RMB0.4 million.
- (14) Refers to the party with which the applicable trust directly transacted, in this case being the government authority that entrusted its property rights to our Company and in turn received income from the applicable trust.

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For some of our trusts, we may estimate an expected rate of return based on the planned use of trust assets as specified in the trust contracts and contracts with relevant counterparties. We will inform our trustor clients of such expected rates of return in the relevant trust documents but we do not promise, given that the PRC laws and regulations prohibit us from promising, any minimum return on the trust assets. In order to illustrate the likely performance of our administrative management trusts, we have calculated the weighted average annualized expected rate of return of all of our administrative management trusts for which such expected rates of return are available, which included 700, 460, 452 and 454 administrative management trusts with trust AUM of RMB229,181 million, RMB151,380 million, RMB142,477 million and RMB132,148 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The weighted average annualized expected rates of return as so calculated of all of our administrative management trusts for which such expected rates of return are available were 7.7%, 7.5%, 6.7% and 6.8% in 2014, 2015, 2016 and for the five months ended May 31, 2017, respectively. The annualized expected rates of return of such administrative management trusts ranged from 4.4% to 20.0% in 2014, 0.7% to 24.0% in 2015, 0.7% to 24.0% in 2016 and 0.7% to 24.0% in the five months ended May 31, 2017.

The Flow of Our Trust Business

As each step of our trust business is subject to various risk management measures, the flow of our trust business is fully integrated with our comprehensive risk management system. For detailed description of our trust business flow and related risk management measures, please see section headed “Risk Management”.

Terms and Termination of Trusts

Our trust contracts set forth the terms of the trusts and specify the circumstances under which the trusts may be early terminated. Different types of trusts may have different terms. During the Track Record Period and up to the Latest Practicable Date, our trusts generally had a term within two years and certain of our trusts had an indefinite term, such as family trusts.

Our trusts may be terminated by us prior to the expiration of their terms upon the occurrence of certain events as specified in the trust contracts, including but not limited to the following: (1) the continuation of the trust is against the goal of establishment of such trust; (2) the goal of the trust has been achieved or unable to achieve; (3) the trust has been cancelled; (4) we, as the trustee, and the beneficiary or beneficiaries of the trust (either acting directly or through beneficiaries’ general meetings) agree to terminate the trust; (5) the counterparty has repaid all the principal and interests of the loan granted by the trust prior to maturity of the loan and we, as the trustee, decide to terminate the trust prior to the expiration of the trust’s original term; (6) the collateral for the loan granted by the trust becomes insufficient and we, as the trustee, believe that protection for the trust assets is no longer adequate; and (7) early terminations required by applicable regulations

or at the requests of regulatory authorities. There were 120, 165, 142, 53 and 47 early terminations of our trusts in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

The terms of some of our trusts may also be extended pursuant to their trust contracts. For example, with respect to some of our trusts, if the trust assets are not liquidated upon expiration of their original terms, the terms will be automatically extended for a period of time to allow us, as the trustee, to liquidate the trust assets. During this period of time, the trust assets may only be used in a way that facilitates assets liquidation. For some of our other trusts, the beneficiaries (either acting directly or through beneficiaries' general meetings) may choose to extend the terms of the trusts with our consent. We also have trusts that do not allow any extension of their terms, and if the trust assets of such trusts are not liquidated upon the expiration of their terms, the trust contracts grant us, as the trustee, the right to distribute such unliquidated trust assets to the beneficiaries as they are.

The trustee's remuneration we are entitled to may be adjusted based on the actual term of a trust in case of early termination or extension.

Trustee's Remuneration

Our income from trust business comes from the management fees we charge the trusts under our management, which we refer to as the trustee's remuneration.

The trustee's remuneration is set forth in the trust contract. We determine our trustee's remuneration by referring to the level of remuneration charged by our competitors for similar products, as well as various factors, including the estimated investment return, the scope of our services, managerial effort and resources we expect to devote in such trust. Our trustee remuneration for administrative management trusts, actively managed financing trusts and actively managed investment trusts are primarily determined as a certain percentage of trust AUM upon entrustment of trust assets. Under certain circumstances where the trust AUM is relatively small or subject to frequent changes due to subscription or redemption by trustor clients, our trustee remuneration can be determined as a fixed amount. For a small number of our actively managed investment trusts, floating remuneration linked to investment return is adopted to reflect the managerial effort and resources we expect to devote in such trusts. Depending on our negotiation with trustor clients on a case-by-case basis, our trustee remuneration can either be (i) primarily determined as a certain percentage of trust AUM upon entrustment of trust assets, supplemented by a portion of floating remuneration which is linked to investment return; or (ii) primarily floating remuneration which is linked to investment return as well as the scope of our services, managerial effort and resources we expect to devote in such trust. In case of any negative investment return incurred by our actively managed trusts during any particular period, pursuant to the terms of the trust contracts, we are generally still entitled to receive, if any, the fixed trustee's remuneration calculated as a percentage of certain percentage of trust AUM upon entrustment, but will not collect the floating remuneration

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which is linked to investment return. We believe our basis of determining the trustee's remuneration is generally in line with market practice for similar products. The Joint Sponsors, after consulting certain experts with extensive expertise and experience in the PRC trust industry, have no reason to believe that the Company's basis of determining the trustee's remuneration for similar products deviates from the general market practice in the PRC trust industry. The trustee's remuneration is payable to us after interest payments by counterparties. But we, as the trustee, are entitled to delay collection of the trustee's remuneration at our discretion during the term of the trusts. The trustee's remuneration is paid out of the trust assets to us regardless of the investment return that can be distributed to beneficiaries, as it is regarded as the expense for administration and management of such trusts, which should be deducted when calculating the trust benefits that beneficiaries are entitled to. There may be discrepancy between the actual trustee's remuneration rates and the fixed trustee's remuneration rates as specified in the trust contracts, as the residual value of assets of the trusts after settlement of all expenses incurred under the trusts and completion of distribution to all trust beneficiaries may be agreed as our remuneration according to the trust contracts and we may be entitled to such floating remuneration.

We provide basic trust administration services for all of our trusts. Such services include, among others, establishment of the trusts through written trust contracts with the trustors, opening special trust account into which the trust assets will be deposited, ensuring that the trust assets are kept separately from our own assets and other assets of the trustors, and distribution of the trust benefits to their beneficiaries. We would generally charge a lower fee for administrative management trusts where we only provide these basic trust administration services. Our average actual trustee's remuneration rate (annualized) for administrative management trusts was 0.26%, 0.23%, 0.19% and 0.20% in 2014, 2015, 2016 and for the five months ended May 31, 2017, respectively.

For our actively managed trusts, we charge higher fees as we provide additional services including actively managing and disposing of the trust assets and using our knowledge and experience to help the trusts to achieve their expected returns. As such additional services we provide differs significantly from one trust to another, the trustee's remuneration also differ significantly among our actively managed trusts. For securities investment trusts, we are also entitled to 10–20% of the appreciation in the trust's NAV when we act as the investment advisor. Our average actual trustee's remuneration rate (annualized) for actively managed trusts was 1.23%, 1.14%, 0.90% and 1.09% in 2014, 2015, 2016 and for the five months ended May 31, 2017, respectively. See “— Our Trust Business — Our Trust Product Lines — Investment Trusts — Securities Investment Trusts”.

Our Clients

Our trust business consists of two major components: (i) the establishment of trusts, whereby investors entrust their funds and other properties to us pursuant to trust contracts, and (ii) the operation and management of the entrusted assets, whereby we put the trust assets into use and manage them pursuant to the trust contracts. The first component is

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often referred to as the investment side of our trust business while the second component is often referred to as the financing side of our trust business. Thus, we have investing clients, which are trustors of our trusts, and financing clients, which are counterparties to the financing and investment transactions undertaken by our trusts. We use the term of “counterparty” under our various trust schemes which typically refers to the entities with which the relevant trust directly transacted. Under our administrative management trusts, counterparties typically refer to the borrowers of the relevant loans granted by trusts or the entities providing the financial products in which the trust assets are invested. Under our financing trusts, counterparties typically refer to the borrowers of the relevant loans granted by the trusts or the entities providing the monetary assets. Under our investment trusts, counterparties typically refer to entities that provide the financial products in which the trusts invest, for example, the security firm initiating the relevant asset management scheme or the general partner of the limited partnership in which the applicable trust invested.

Most of our trustor clients are corporate and institutional investors and HNWI in the PRC, and all trustor clients of our collective fund trusts must be qualified investors. See “— Our Trust Business — Special Requirements Applicable to Collective Fund Trusts — Trustors”. We perform due diligence on proposed trustor clients before accepting their entrustments. See “Risk Management — Risk Management in Our Trust Business — Project Initiation and Due Diligence — Due Diligence on Trustor Clients”. The following table sets forth the breakdown of our trustor client accounts by corporate and institutional investors and HNWI as of the dates indicated.

Type of trustor clients	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	%	Number	%	Number	%	Number	%
Corporate and institutional investors	1,599	4.1	1,797	4.3	2,139	4.4	2,266	4.2
HNWIs	37,699	95.9	40,455	95.7	46,731	95.6	51,080	95.8
Total	39,298⁽¹⁾	100.0	42,252⁽²⁾	100.0	48,870⁽³⁾	100.0	53,346⁽⁴⁾	100.0

Notes:

- (1) Including 15,272 trustor client accounts from Shandong, representing 38.9% of the total number of trustor client accounts.
- (2) Including 15,928 trustor client accounts from Shandong, representing 37.7% of the total number of trustor client accounts.
- (3) Including 17,018 trustor client accounts from Shandong, representing 34.8% of the total number of trustor client accounts.
- (4) Including 17,348 trustor client accounts from Shandong, representing 32.5% of the total number of trustor client accounts.

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Each of our collective trusts may have many trustor clients that include both corporate and institutional investors and HNWI. Each of our individual trusts has only one trustor client, which could be a corporate and institutional investor or a HNWI. The following table sets forth a breakdown of the number and aggregate AUM of our individual trusts by different type of trustor clients as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	AUM (RMB in millions)	Number	AUM (RMB in millions)	Number	AUM (RMB in millions)	Number	AUM (RMB in millions)
Administrative management trusts								
– Corporate and institutional investors:								
Financial institutions	521	229,216	294	149,288	345	146,474	343	129,851
Others ⁽¹⁾	170	36,329	180	42,240	130	34,993	134	39,471
Subtotal	691	265,545	474	191,528	475	181,467	477	169,322
– HNWI	51	1,997	40	1,256	32	1,293	30	1,320
Subtotal	742	267,542	514	192,784	507	182,760	507	170,642
Actively managed trusts								
– Corporate and institutional investors:								
Others ⁽¹⁾	2	62	2	177	13	2,346	16	2,794
Subtotal	2	62	2	177	13	2,346	16	2,794
– HNWI	7	90	19	373	44	810	85	1,675
Subtotal	9	152	21	550	57	3,156	101	4,469
Total	751	267,694	535	193,334	564	185,916	608	175,111

Note:

(1) Primarily refers to (i) government authorities in Shandong Province, (ii) companies or limited liability partnership principally engaged in investment management, and (iii) labor unions in Shandong and other provinces.

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Our trustor clients may entrust varying amount of their assets to us through one or more of our trusts. The following table sets forth the breakdown of our trustor client accounts by the aggregate amount of their trust AUM with us as of the dates indicated.

Trust AUM	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Number	%	Number	%	Number	%	Number	%
Under RMB1 million	10,773	27.4	11,507	27.2	11,863	24.3	11,845	22.2
between RMB1 million and RMB3 million	14,539	37.0	15,541	36.8	17,983	36.7	18,947	35.5
between RMB3 million and RMB6 million	9,221	23.5	9,793	23.2	12,016	24.6	14,187	26.6
between RMB6 million and RMB10 million	2,152	5.5	2,366	5.6	3,025	6.2	3,685	6.9
Over RMB10 million	2,613	6.6	3,045	7.2	3,983	8.2	4,682	8.8
Total	39,298	100.0	42,252	100.0	48,870	100.0	53,346	100.0

We also monitor the number of our active trustor client accounts and repeated trustor client accounts as performance indicators of our trust business. Our active trustor client accounts as of a certain date refer to all of our trustor client accounts that entered into at least one new trust contract with us during the two-year period prior to such date. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 21,672, 16,919, 14,787 and 11,029 active trustor client accounts, respectively. Our repeated trustor client accounts as of a certain date refer to all of our trustor client accounts that have entered into two or more trust contracts with us prior to such date. As of December 31, 2014, 2015, 2016 and May 31, 2017, we had 7,642, 8,475, 10,117 and 11,494 repeated trustor client accounts, respectively.

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Our financing clients include the counterparties for our financing trusts, such as real estate developers, local governments and their financing platforms and SMEs, and investees of our indirect investment trusts. We also serve listed companies and their shareholders, management and employees, satisfying both of their financing needs and investment needs, which we generally refer to as our listed company comprehensive financial service trusts. We perform various due diligence on each of our proposed financing clients. See “Risk Management — Risk Management in Our Trust Business — Project Initiation and Due Diligence — Due Diligence on Proposed Projects and Counterparties”. As of May 31, 2017, we had had approximately 2,100 counterparty clients, including approximately 250 real estate developers, approximately 50 local government financing platforms and controlled enterprises, and approximately 1,800 other enterprises in various industries, with many of them being listed companies.

Our financing clients are primarily located in China. While our headquarters are located in Jinan, Shandong province, we have a national operation and our financing clients spread in 31 provinces, municipalities and autonomous regions in China.

In 2014, 2015, 2016 and the five months ended May 31, 2017, the aggregate trustee’s remuneration attributable to our five largest trust schemes in terms of trustee’s remuneration accounted for less than 30% of our total fee and commission income during the relevant period, respectively.

Lucion Group, a Controlling Shareholder, is the trustor client of one of our five largest trust schemes in terms of trustee’s remuneration for the five months ended May 31, 2017.

Save as disclosed above, to the knowledge of our Directors, none of our directors, supervisors and their respective close associates or any shareholder holding more than 5% of our issued share capital has any interests in any of the trustor clients and counterparty clients of our five largest trust schemes in terms of trustee’s remuneration during the Track Record Period.

We have no major suppliers due to the nature of our business.

During our ordinary course of business, a trustor client of one trust scheme may be a counterparty to another trust scheme, according to trust contracts entered into at different points in time. Such arrangements were driven by these clients’ various commercial reasons. For example, a corporate, as a counterparty, may be granted loans under our trust scheme to satisfy its financing needs. Meanwhile, it may decide to become our trustor client and set up another trust scheme with us with its available funds in the anticipation to enjoy better investment returns, such as a higher interest income, as compared to deposits at commercial banks. Similarly, financial institutions are a typical type of our trustor clients, who extend loans to designated borrowers through trust schemes. On the other hand, such financial institutions may also become counterparties of our trust schemes under which they provide financial products, such as asset management schemes, in which the relevant

trusts invest. As advised by our PRC legal advisor, such arrangements where a trustor of one trust scheme is also a counterparty to another trust scheme at the same time does not contravene any applicable PRC laws and regulations.

For illustration purpose only, based on our internal operating data record during the Track Record Period, we identified 20, 15, 14 and 15 entities (the “Relevant Parties”) that were both (i) trustor clients of a trust scheme and (ii) counterparty clients of another trust scheme for the same financial period during each of the financial year/period of the Track Record Period, respectively. These entities were parties to 94, 53, 72 and 100 trust schemes managed by us (the “Relevant Trust”) as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The aggregate AUM of Relevant Trusts involving Relevant Parties acting as the trustor clients amounted to RMB20,871 million, RMB6,099 million, RMB6,316 million and RMB8,662 million, respectively, as of December 31, 2014, 2015, 2016 and May 31, 2017, accounting for an immaterial portion of approximately 6.4%, 2.5%, 2.5% and 3.4% of the total AUM managed by us as of the same dates. The aggregate AUM of Relevant Trusts involving Relevant Parties acting as the counterparty clients amounted to RMB7,657 million, RMB12,384 million, RMB17,664 million and RMB16,129 million, respectively, as of December 31, 2014, 2015, 2016 and May 31, 2017, accounting for an immaterial portion of approximately 2.3%, 5.1%, 6.9% and 6.3% of the total AUM managed by us as of the same dates.

Client Development and Product Placement

We have different approaches for the development of different types of clients.

Financing Clients

In order to develop and maintain our financing clients, we have established and maintained business relationships with many local governments and major companies in different industries, many of which either become our clients themselves or refer other clients to us. Our business teams assume main responsibility for the coverage of these clients based on their respective industry and sector specialties and existing client base.

Investing Clients

Investing clients of our individual trusts are mainly corporate and institutional investors and HNWI in the PRC. In order to develop and maintain investing clients, we focus on providing high-quality customer service, as well as new and different financial products that can satisfy diversified investment needs of the trustor clients. We attach great importance to maintaining the business relationship with commercial banks, other financial institutions, companies, institutional investors as well as HNWI.

For collective trusts, we place trust units of our collective trusts, almost all of which are collective fund trusts, to investors through other financial institutions in China and our own Wealth Management Center.

- Placement Through Other Financial Institutions

For our collective fund trusts, as the trust units in these trusts are standard products placed to a large number of trustor clients, we have traditionally mainly relied on the distribution channel and established customer base of financial institutions, mainly large commercial banks, in China to place such products. We would enter into placement agency agreements with the commercial banks pursuant to which the banks will agree to place a fixed amount of trust units through their distribution channel to qualified investors. We would also require the banks to strictly follow the special regulations for collective fund trusts. The banks will act as our agent in the arrangement and assist us in signing trust contracts with the trustor clients. Once the contracts are signed, all information about the trustor clients together with the signed contracts are either physically or electronically returned to our Wealth Management Center for centralized management. The banks will charge a commission for their placement services, which will be paid out of the trust assets. In addition, commercial banks may also sell wealth management products that invest in our collective fund trusts, in which case we can also utilize the distribution channel and established customer base of such banks. Under such circumstances, the commercial banks would not charge us a separate commission as they could generate their income from the difference between expected return of our collective fund trusts and the expected return of their wealth management products. Other than commercial banks in China, we did not rely on any other third party to place our trust units to trustor clients during the Track Record Period. We have implemented risk management procedures and policies in connection with the selection of and transaction with our distribution channels, please refer to “Risk Management — Risk Management in Our Trust Business — Project Initiation and Due Diligence” for more details.

In 2014, 2015, 2016 and the five months ended May 31, 2017, the aggregate AUM of our collective fund trusts that were placed through financial institutions amounted to approximately RMB35,500 million, RMB24,800 million, RMB44,571 million and RMB37,423 million, respectively (including approximately RMB9,164 million, RMB9,041 million, RMB34,424 million and RMB27,243 million, respectively, for which the financial institutions charged a separate commission). Among such total AUM of the collective fund trusts that were placed through financial institutions, AUM of RMB21,700 million, RMB18,200 million, RMB36,667 million and RMB23,027 million, respectively, were placed through China Merchants Bank, a national commercial bank in China with its shares listed on the Shanghai Stock Exchange (Stock Code: 600036) and The Stock Exchange of Hong Kong Limited (Stock Code: 3968), which represented 53.2%, 59.5%, 62.1% and 53.2% of our collective fund trusts and 18.2%, 30.5%, 31.3% and 49.7% of our total trusts placed in 2014, 2015, 2016 and the five months ended May 31, 2017, respectively. In order to manage risks associated with our reliance on this commercial bank to place a substantial portion of our collective fund trusts, we have enhanced efforts to place our collective fund trusts through our own Wealth

Management Center. For additional information, please see “— Placement Through Our Wealth Management Center” below. In addition, we have maintained good business relationships with other financial institutions and will endeavor to maintain all of our existing channels. We also plan to further improve our own sales and marketing system and establish a dedicated wealth management subsidiary to improve our services and enhance our market expansion capabilities. For additional information, please see “— Our Strategies — Enhance our wealth management capabilities and increase coverage of institutional and HNWI clients”.

- Placement Through Our Wealth Management Center

As our trusts gained their reputation and our trustor client base continues to grow, we started to place our collective trusts directly to qualified investors through our own Wealth Management Center in Jinan, Shandong in 2011 which currently also has two regional units in Qingdao and Shanghai.

We are not allowed to conduct public marketing or publicity activities when promoting our collective fund trusts under PRC laws and regulations. Our client managers would promote our collective fund trusts to qualified investors face-to-face or through one-on-one phone calls. We publish information about our collective fund trusts on our website, and anyone interested can make reservations on our website by submitting an inquiry form online. We have also opened a public account on WeChat, a popular mobile text and voice messaging communication service in China, where information relating to our proposed new trusts is posted and trustor clients may check the status of their investments in our trusts as it is connected to the Online Trust Platform. See “— Information Technology — Information Systems — Online Trust Platform”. Our PRC legal counsel has advised us that the use of our website, public account on Wechat and our Online Trust Platform as mentioned above are not prohibited by the PRC laws and regulations relating to promotion activities of collective fund trusts. We also invite our existing and potential clients to seminars or other social events where they can obtain more knowledge about trusts in general and information about our trust schemes. We would provide legal trainings to our employees in the Wealth Management Center to make sure our operation in accordance with the regulations.

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The volume and percentage of placement through our own Wealth Management Center increased significantly from 2014 to 2016 but decreased in the five months ended May 31, 2017. The aggregate AUM of our collective fund trust schemes that were placed through our Wealth Management Center increased by 9.4% from RMB5,300 million in 2014 to RMB5,800 million in 2015 and sharply increased by 149.2% to RMB14,453 million in 2016, but decreased by 10.4% from RMB6,400 million in the five months ended May 31, 2016 to RMB5,736 million in the five months ended May 31, 2017 and, as a percentage of the total AUM of our collective fund trusts placed during the period, it increased from 13.0% in 2014 to 19.0% in 2015 and increased to 24.5% in 2016 but decreased to 13.3% in the five months ended May 31, 2017.

We plan to further increase the volume and percentage of placement through our own Wealth Management Center. We plan to hire more client managers to increase our client coverage. We also plan to utilize more of Internet channels for the placement of our products. Qualified investors registered with our online platform need to come to our Wealth Management Center or one of our offices in other regions to sign the trust contract and related legal documents in person after making reservations with us, as PRC laws and regulations require face-to-face meetings as a part of our know-your-client process and for execution of trust contracts. As required by the relevant laws and regulations, we record the trust contract signing process on audio and video tapes which are duly archived for reference and administration purpose. We are exploring possibilities of using online video conferences to satisfy such face-to-face meeting requirement and thereby enable qualified investors to subscribe to our trusts remotely through the Internet, which we believe will help us develop more trustor clients outside the cities where we have offices. We also plan to classify our trustor clients into different categories and promote different types of trusts for different categories of clients. Please also refer to “Risk Management — Risk Management in Our Trust Business — Trust Establishment” for more details.

We expect the expansion of our own placement channel will not only reduce our placement costs and thereby increase return to investors but also improve our wealth management capabilities and help us expand our private wealth management-related trust business.

Client Management and Customer Service

Our Wealth Management Center is responsible for managing all of our trustor clients and providing related customer services.

In 2013, we engaged Hundsun Technologies Inc., a leading Chinese supplier of financial software, or Hundsun Technologies, to establish our customer relationship management system, or the CRM system, and have been continuously improving and upgrading the system. All of our contracts with trustors, including those signed through commercial banks with trustors, as well as comprehensive information about our trustor clients are entered into the CRM system. We have also established a call center system, which is connected to our CRM system and helps record information about our client managers' calls with our trustor clients as well as input such information into the database of our CRM system. With the support from our CRM system, our trustor clients can check information about their investments in our trusts and the status of those trusts on our online trust platform, which can be accessed through our website and our public account on WeChat. We also publish information on our proposed trusts and information about purchase of our products, and clients may make online reservations for products they are interested in. These systems allow us to efficiently promote our trusts and collect information about potential clients, and greatly facilitates the trust products buying process and information inquiry for our clients. With the information collected, our CRM system could then help us analyze all information collected in its database and provide valuable inputs to help us improve our trust products to better satisfy our trustor clients' diversified needs and make our promotion and placement activities more efficient.

Research and Development

We believe continuous innovation is vital to the success of our trust business. Throughout the history of our company, we have been actively monitoring changes in the market and regulatory environment, identifying unsatisfied demand and market opportunities and creating new trusts to offer unique value to our different types of clients. We have always attached great importance to the research and development of new trusts. Our research and development efforts are not limited to one particular department but involve all functions of our operations. While our front-desk business teams may take the initiative in identifying new products with significant potentials, our trust operation departments will design procedures and build up mechanisms to ensure the new products will function properly and our risk control and compliance departments will identify risks relating to the new products and design and implement measures to reduce and control the risks.

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To centralize some of our research resources, we have also established a Research and Development Center, or the R&D Center, that consisted of three researchers with doctoral degrees and four researchers with master's degrees. The R&D Center interfaces with all departments of the company to coordinate our research and development efforts. The R&D Center also cooperates with other research institutions in some of its research activities. In addition to developing new trust products, the R&D Center also undertake industry and macro economic research to assist us in formulating strategies for our future development.

OUR PROPRIETARY BUSINESS

We allocate our proprietary assets into different asset classes in order to achieve reasonable return on our proprietary assets while maintaining the safety of such assets. We invest in certain businesses with strategic value to our core trust business, and maintain and increase the value of our own capital through our proprietary business.

Allocation of Our Proprietary Assets

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

We manage and invest our proprietary assets within the scope described above and in accordance with our annual assets allocation plans, which are formulated by our management and approved by our board of directors each year. We do not actively engage in short-term trading activities for speculative gain and therefore do not have any trading strategy or trading limits.

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

	As of December 31,			As of May 31,
	2014	2015	2016	2017
(RMB in thousands)				
Investments in monetary assets	882,922	762,513	460,948	699,698
Deposits at banks	287,122	338,933	162,048	79,798
Government bonds purchased under agreements to resell	595,800	423,580	298,900	619,900
Securities Investments	2,563,055	2,908,943	4,350,215	3,960,470
<i>Investment in equity products</i>	804,657	1,004,547	379,021	369,681
Listed shares classified as:				
– financial assets at FVTPL	37,992	49,694	25,673	21,411
– available-for-sale financial assets	110,868	120,934	42,408	32,238
Subtotal	148,860	170,628	68,081	53,649
Securities investment funds classified as:				
– financial assets at FVTPL	244,767	194,808	48,311	84,053
– available-for-sale financial assets	411,030	639,111	262,629	231,979
Subtotal (note)	655,797	833,919	310,940	316,032

Note:

Distribution of the financial products held by the securities investment funds in which we invested using our proprietary funds is further analyzed as follows:

	As of December 31,		
	2014	2015	2016
(as percentages to the securities investment funds)			
Equities securities	62.7%	42.8%	67.9%
Fixed income securities	34.4%	28.8%	15.5%
Deposit at banks	11.9%	22.5%	12.0%
Other assets/(liabilities), net ⁽¹⁾	(9.0)%	5.9%	4.6%
Total	100.0%	100.0%	100.0%

Note:

(1) Other assets refer primarily to financial assets held under resale agreements while other liabilities refer primarily to financial assets sold under repurchase agreement.

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	As of December 31,		
	2014	2015	2016
	(as percentages to the equity securities)		
<i>Equities securities</i>			
– Manufacturing	31.2%	23.9%	43.7%
– Mining	2.2%	0.6%	5.2%
– Construction	2.5%	0.4%	3.9%
– Information technology	1.7%	4.6%	3.7%
– Finance	8.2%	1.1%	1.8%
– Wholesale & retailing	2.2%	2.2%	1.4%
– Real estate	4.0%	3.6%	1.4%
– Transportation, warehousing & postal	4.4%	0.9%	1.3%
– Cultural, sports & entertainment	0.3%	2.5%	0.7%
– Utilities	2.5%	0.5%	0.4%
– Others	3.5%	2.5%	4.4%
Sub-total for equities securities	<u>62.7%</u>	<u>42.8%</u>	<u>67.9%</u>

	As of December 31,		
	2014	2015	2016
	(as percentages to the fixed income securities)		
<i>Fixed income securities</i>			
– Bonds issued by			
– Government	0.1%	1.7%	0.3%
– Financial institutions	3.7%	13.3%	8.9%
– Corporate	28.3%	11.7%	1.9%
– Others	2.3%	2.1%	4.4%
Sub-total for fixed income securities	<u>34.4%</u>	<u>28.8%</u>	<u>15.5%</u>

* Such information is not available as of May 31, 2017 because these securities investment funds disclose the components of financial products they invested in on a quarterly basis only.

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As the equities securities and fixed income securities we invested in are issued by entities in the PRC and all deposits have been placed with commercial banks in the PRC, no geographical analysis is presented.

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
<i>Investment in wealth management products</i>				
Investments in our consolidated trust schemes	1,564,705	1,787,828	3,634,905	3,175,742
Investments in our unconsolidated trusts and classified as loans and receivables	163,072	80,144	180,643	256,838
Investments in our unconsolidated trusts and classified as available-for-sale financial assets	30,521	29,140	–	–
Asset management products	100	7,284	155,646	158,209
Long-Term Equity Investments	1,259,655	1,334,249	1,193,320	1,274,140
Investment accounted for using the equity method ..	676,211	974,125	845,602	896,763
Investments classified as available-for-sale financial assets	583,444	360,124	347,718	377,377
Proprietary Loans	138,670	293,892	–	–
Trust Industry Protection Fund	–	43,495	57,800	72,313
Prepayment for construction projects	160,984	228,136	–	–
Total	<u>5,005,286</u>	<u>5,571,228</u>	<u>6,062,283</u>	<u>6,006,621</u>

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- *Monetary Assets*

This is the safest and most liquid type of our proprietary investment. The balance of our Company's investment in monetary assets and our Group's investment return (in terms of interest income generated) during the Track Record Period are summarized below:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Investment in monetary assets				
– Deposit at banks	287,122	338,933	162,048	79,798
– Government bonds purchased under agreements to resell	595,800	423,580	298,900	619,900
Total	882,922	762,513	460,948	699,698

	Years ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Interest income generated from:					
– Deposit at banks	37,222	4,138	4,735	1,040	656
– Government bonds purchased under agreements to resell	26,337	18,614	14,602	6,821	10,313
Total	63,559	22,752	19,337	7,861	10,969

Average investment return of our monetary assets (calculated as the total of investment income (in terms of interest income received), as a percentage of average investment balance in such monetary assets, annualized where appropriate) was 5.12%, 2.77%, 3.16%, 1.21% and 1.89% for the years ended December 31, 2014, 2015 and 2016 and the five months ended May 31, 2016 and 2017, respectively. The relatively higher average investment return on monetary assets in 2014 was primarily due to the increase in interest income from term deposits as a result of the increase in restricted cash received from our registered share capital increase in 2014.

Under our annual assets allocation plan for 2017, we are required to hold a minimum of RMB300 million in monetary assets. The risk level of these monetary assets is considered low because they are fixed-income in nature, and have high liquidity.

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- *Securities Investments*

Under our annual assets allocation plan, a certain percentage of our proprietary assets would be allocated to securities investments including equity products, including listed shares and mutual funds, as well as wealth management products, including investments in our consolidated and unconsolidated trust schemes and asset management products. The following table sets forth the average investment balance of, average investment return on, and risk level of the underlying investments of our securities investments for the periods indicated:

	Year ended December 31,			Five months ended May 31,
	2014	2015	2016	2017
(RMB in million, except risk category and percentage)				
Risk category of underlying investments				
– Equity products	High	High	High	High
– Trust schemes	Medium	Medium	Medium	Medium
– Asset management products ..	Medium	Medium	Medium	Medium
Average investment balance⁽¹⁾				
– Equity products	682.3	904.6	691.8	374.4
– Trust schemes	1,553.8	1,827.7	2,856.3	3,624.1
– Asset management products ..	27.6	3.7	81.5	156.9
Average investment return⁽⁵⁾				
– Equity products ⁽²⁾	35.18%	28.85%	-10.99%	-17.59%
– Trust schemes ⁽³⁾	7.80%	7.10%	6.35%	6.88%
– Asset management products ⁽⁴⁾	25.93%	89.65%	-2.34%	8.45%

Notes:

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

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- (2) Average investment return of equity products equals total of investment income, net changes in fair value on financial assets at fair value through profit or loss, and net change in unrealized gain or loss from fair value measurement on available-for-sale equity products before income tax, recorded in other comprehensive income, as a percentage of average investment balance in such equity products, annualized where appropriate.
- (3) Average investment return of trust schemes equals total of investment income from consolidated trust schemes (recognized as investment income for the years ended December 31, 2014, 2015 and 2016, and investment income from such trust schemes on a pro rata basis calculated by the expected return rate of each of the trust schemes for the five months ended May 31, 2017) and investment income from unconsolidated trust schemes (recognized as interest income on an accrued basis, as a percentage of average investment in such trust schemes, annualized where appropriate).
- (4) Average investment return of asset management products equals investment income and net change in other comprehensive income before income tax from asset management products classified as available-for-sale financial assets, as a percentage of average investment balance in such asset management products, annualized where appropriate.
- (5) The risk level of our investments in these trust schemes and asset management products is considered medium because they have financial returns similar to fixed income securities, but less liquidity than monetary assets. The risk level of these equity products is considered high because their market prices are subject to fluctuation on daily basis.

The average investment return on our proprietary investments in equity products decreased from 35.18% in 2014 to 28.85% in 2015, then decreased to negative 10.99% in 2016 and decreased to a negative 17.59% (annualized basis) in the five months ended May 31, 2017 primarily due to fluctuations in the Chinese stock markets. The Chinese stock markets experienced a steady growth in 2014 (SSE Index rose from 2,115.98 on December 31, 2013 to 3,234.68 on December 31, 2014) and rose sharply in the first five months of 2015, but tumbled in June 2015 and experienced further significant fluctuations in 2015 and further declined in 2016 (SSE Index rose from 3,234.68 on December 31, 2014 to 5,166.35 on June 12, 2015 and dropped to 3,539.18 on December 31, 2015, then dropped to 3,103.64 on December 31, 2016) and rose to 3,117.18 on May 31, 2017.

The average investment return on our proprietary investments in trust schemes slightly decreased from 7.8% in 2014 to 7.1% in 2015, then slightly decreased to 6.35% in 2016, primarily because of the decline in general financing costs in China and increased competition among different financing sources that drove down investment returns of trust schemes. The average investment return on our proprietary investments in trust schemes increased slightly to 6.9% (annualized basis) in the five months ended May 31, 2017.

The average investment return on our proprietary investments in asset management products significantly increased from 25.93% in 2014 to 89.65% in 2015, but declined to negative 2.34% in 2016, and rose to positive 8.45% (annualized basis) for the five months ended May 31, 2017. The average investment return on our proprietary investment in asset management products fluctuated significantly during the Track Record Period, primarily because the average investment returns were heavily affected by the performance of individual products which were in line with the Chinese stock market, especially

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the decline in the market performance in 2016. The relatively higher average investment return on our proprietary investments in asset management products in 2015 were primarily because we had limited investment in asset management products by the end of 2014 which caused the relatively lower average investment balance in 2015 for calculation purpose.

According to our annual assets allocation plan for 2017, we may allocate no more than 25% of our proprietary assets to invest in equity products and no more than 60% to wealth management products. The listed shares that we have invested in are shares of Chinese companies from different industries that are listed and publicly traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange. The following table sets forth the breakdown of our proprietary investments in listed shares by industry as of the dates indicated,

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
	(in millions of RMB, except percentages)							
Financial industry . . .	60.08	40.36	53.67	31.45	1.61	2.36	1.64	3.06
Manufacturing Industry	74.67	50.16	101.93	59.74	66.47	97.64	52.01	96.94
Mining industry	11.27	7.57	-	-	-	-	-	-
Culture, Sports and Entertainment Industry	-	-	9.75	5.71	-	-	-	-
Real Estate Industry .	-	-	5.28	3.09	-	-	-	-
Others	2.84	1.91	-	-	-	-	-	-
Total	148.86	100	170.63	100	68.08	100	53.65	100

The securities investment funds that we have invested in are mainly managed by First-Trust Fund Management Co., Ltd., a securities investment fund management company in which we hold 45% equity interests, and these securities investment funds invest in a variety of financial products including equity securities, fixed income securities, deposit at banks and other financial assets. The trust schemes that we have invested in include financing trusts and investment trusts managed by us. Currently, we only invest in our own trust products as we have more confidence in our own products than trusts offered by our competitors. The investment amount attributable to the top ten trust schemes we have invested in as a percentage of all trust schemes we have invested in was 66.3%, 65.4%, 71.8% and 66.2% as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively.

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The industry exposure of the underlying assets of the top ten trust schemes we have invested in during the Track Record Period is summarized as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
Real estate	60.2%	52.7%	35.9%	57.3%
Governmental platform . . .	15.4%	–	–	–
Industrial and commercial enterprises				
– financial industry	–	–	47.7%	25.3%
– wholesale & retailing . .	–	27.0%	–	–
– manufacturing	12.7%	11.1%	–	–
– mining	7.6%	–	–	–
– construction	4.1%	–	7.1%	6.6%
– utilities	–	9.2%	5.0%	6.1%
– leasing and commercial services .	–	–	–	4.7%
Equity financial products . .	–	–	4.3%	–
Total	100.0%	100.0%	100.0%	100.0%

When deciding whether to make investments into trust schemes, we consider several factors, including the rate of return on such trust schemes, the guarantees and collaterals granted under such trust schemes, the industry or company in which such trust schemes invest and the investment durations of such trust schemes so as to achieve reasonable return, maintain our liquidity position and preserve the value of our proprietary assets. Some of our trust schemes that we invested in were troubled trusts and we made the proprietary investments to provide liquidity support to such trusts. For additional information, please see the section headed “Risk Management — Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management”. The asset management products we have invested in are offered by various different securities firms and securities investment fund management companies which have the qualification to offer such products. Compared to securities investment funds, these asset management products have higher thresholds of their investors, can invest in a wider range of financial products and provide more flexibility to their asset managers.

As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our securities investments was RMB2,563.1 million, RMB2,908.9 million, RMB4,350.2 million and RMB3,960.5 million, respectively. As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our investments in equity products was RMB804.7 million, RMB1,004.5 million, RMB379.0 million and

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RMB369.7 million, respectively, representing 16.1%, 18.0%, 6.3% and 6.2% of our total proprietary investments, respectively; and the balance of our investments in wealth management products was RMB1,758.4 million, RMB1,904.4 million, RMB3,971.2 million and RMB3,590.8 million, respectively, representing 35.1%, 34.2%, 65.5% and 59.8% of our total proprietary investments, respectively.

- *Long-Term Equity Investments*

We have made strategic long-term investments in a number of financial institutions. As most financial sectors in China require their own licenses, we believe the licenses held by these financial institutions have strategic value to the development of our core trust business in the future. These investments helped us establish stronger business relationships with the financial institutions, expand our business network and obtain deeper knowledge of the financial sectors in which they operate. We have been more involved in the management of these financial institutions than purely financial investors and would normally seek seats on the board of directors when we make our investments. We also hope to achieve long-term appreciation in the value of our investments in these financial institutions. We consider the risk level of such investments to be medium, because there are strategic investments and they do not have market prices that fluctuate on daily basis.

The following table sets forth our major equity investments in financial institutions as of May 31, 2017, including their main business, our equity interests in them, whether we held any board seat, the date of our first investment, and the relevant accounting treatment of each of the investments.

Name	Main business	Equity interest		Board seat	First investment date	Accounting treatment
		as of	May 31, 2017			
1. First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司)	Management of securities investment funds	45.00%	Yes	May 2003	Investments accounted for using the equity method	
2. Shandong HOWO Automotive Finance Co., Ltd. (山東豪沃汽車金融有限公司)	Automobile financing	30.00%	Yes	September 2015	Investments accounted for using the equity method	

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Name	Main business	Equity interest as of May 31, 2017	Board seat	First investment date	Accounting treatment
3. Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)	Management of securities investment funds	16.68%	Yes	April 1999	Investments accounted for using the equity method
4. Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司)	Insurance products and services	9.85%	No	December 2010	Available-for-sale financial assets
5. Dezhou Bank Co., Ltd. (德州銀行股份有限公司)	Commercial banking	4.28%	Yes	November 2009	Investments accounted for using the equity method
6. Minsheng Securities Co., Ltd (民生證券股份有限公司)	Securities brokerage, securities asset management and proprietary trading	1.38%	No	January 1999	Available-for-sale financial assets

We may from time to time dispose of our equity interests in the financial institutions we invested in based on the financial performance of such institutions and their complementary value to our trust business. As of the Latest Practicable Date, we plan to dispose of and have taken certain measures for the disposal of all of our equity interests in First-Trust Fund Management Co., Ltd., Dezhou Bank Co., Ltd. and Zouping SPD Rural Bank Co., Ltd., and we are still looking for an appropriate buyers of such equity interests and do not expect such disposals, if completed, will have a material adverse effect on our financial condition or results of operation.

The Administrative Measures of Trust Companies issued by the CBRC prohibit trust companies from using their proprietary funds to make equity investments in enterprises that are not financial institutions unless otherwise provided by the CBRC. We previously held equity interests in enterprises that are not financial institutions and we have disposed of our interests in most of such enterprises in accordance with the Administrative Measures of Trust Companies and recommendations made by the Shandong Office of CBRC. During the Track

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Record Period, we held legal ownership of equity interests in Jinding Leasing Co., Ltd., which is not a financial institution. In order to comply with the relevant rules and regulations, in December 2016, we disposed of our equity interest in Jinding Leasing Co., Ltd. to Shandong Luxin Financial Holdings Co., Ltd., a subsidiary of Lucion Group, at a price of RMB101.2 million. We had received the cash consideration in full as of the Latest Practicable Date. As of the Latest Practicable Date, we held legal ownership of equity interests in other three enterprises that are not financial institutions. The aggregate amount of our original equity investments in these three enterprises amounted to RMB7.8 million. These enterprises had ceased operation and we recognized total loss on these investments and removed them from our accounts as of December 31, 2016. In accordance with written instructions of Shandong SASAC, we had entered into agreements to transfer our equity interests in these three dormant enterprises to a special state-owned enterprise dedicated to the disposition of such dormant enterprises and we are in the process of completing such transfer. With respect to another enterprise that is not a financial institution in which we previously held equity interest, we had entered into an agreement to transfer all of our interests in this enterprise to Lucion Group, and all of our economic interests in this enterprise had already been transferred to Lucion Group pursuant to the agreement and we removed this investment from our accounts as of December 31, 2016. We transferred the legal ownership in this enterprise to Lucion Group on August 28, 2017. During its inspections on us during the Track Record Period, the Shandong Office of CBRC noted that we used proprietary funds to invest in enterprises that are not financial institutions and asked us to dispose of these investments before we obtain the qualification to engage in such equity investments.

As advised by our PRC legal advisor, under the Administrative Measures of Trust Companies issued by the CBRC, if our equity investments in the enterprises that are not financial institutions are determined by the CBRC to have been made without its approval and therefore not in compliance with the regulations, we may be subject to confiscation of illegal income from such non-compliance and a maximum fine of up to five times of the illegal income if the illegal income is found to be more than RMB0.5 million or a maximum fine of RMB0.5 million to RMB2 million if the illegal income is found to be less than RMB0.5 million. It is unclear, however, how the illegal income from such non-compliance should be calculated under these regulations. As advised by our PRC legal advisor, we do not believe we will be subject to any material adverse legal consequences as a result of these equity investments, based on consideration of the following factors,

- We have disclosed such equity investments and the resulting non-compliance to the Shandong Office of CBRC during routine inspections and also reported our disposal plans to the Shandong Office of the CBRC, which did not issue any further comments or requests;

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- We have also reported such equity investments and the resulting non-compliance and our disposal plans in the application documents submitted to the Shandong Office of CBRC when we applied for a supervisory opinion in preparation for the Global Offering;
- The Shandong Office of CBRC has issued a supervisory opinion to us which concluded that our major regulatory indicators were in compliance with the PRC laws and regulations;
- No regulator has taken any supervisory measures nor imposed any administrative penalties against us as a result of such equity investments or non-compliance; and
- Disposals of such equity investments have been carried out by us in accordance with applicable laws and regulations.

We use equity method to account for our long-term equity interests in companies that constituted our associates under IFRSs and account for our long-term equity investments in other companies as available-for-sale financial assets. The balance of our Company's long-term equity investments (including those accounted for as associates using the equity method and those accounted for as available-for-sale financial assets) together with investment return (in terms of dividend income generated) during the Track Record Period are summarized below:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Long-term equity investments, accounted for:				
– As associate using the equity method	676,211	974,125	845,602	896,763
– As available-for-sale financial assets	583,444	360,124	347,718	377,377
Total	1,259,655	1,334,249	1,193,320	1,274,140

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	Years ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Dividend income generated from:					
– Associates accounted for using the equity method					
– Fullgoal Fund Management Co. Ltd. . . .	–	33,017	129,065	–	–
– Dezhou Bank Co. Ltd. . . .	4,164	4,851	–	–	–
– First-Trust Fund Management Co. Ltd. . . .	–	4,500	–	–	–
– Other non-material associates	687	–	1,279	–	–
Subtotal	4,851	42,368	130,344	–	–
– Available-for-sale financial assets	736	458	28,902	22,778	–
Total	5,587	42,826	159,246	22,778	–

Average investment return of our long-term equity investments (calculated as the total of investment income (in terms of dividend income received), as a percentage of average investment balance in such long-term equity investments, annualized where appropriate) was 0.52%, 3.30%, 12.60%, 1.80% and nil for the years ended December 31, 2014, 2015 and 2016 and the five months ended May 31, 2016 and 2017, respectively. The relatively higher average investment return on long-term equity investments in 2016 was primarily due to the dividends of RMB129.1 million declared and paid by Fullgoal Fund Management Co., Ltd. which we accounted for using the equity method.

Our annual assets allocation plan for 2017 did not set any limit on the percentage or amount of our proprietary assets that may be allocated to long-term equity investments.

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- *Proprietary Loans*

While we are allowed to grant proprietary loans to our customers, we do not engage in such business on a regular basis. The limited number of proprietary loans granted by our Company during the Track Record Period were mostly granted to counterparty clients of our financing trusts as bridge financing before proceeds of the loans from our trusts were released to them. As such, all such loans are short-term in nature and we have not experienced any default on such loans during the Track Record Period. Accordingly, we consider the risk level of these proprietary loans to be medium. As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our proprietary loans was RMB138.7 million, RMB293.9 million, nil and nil, respectively.

The following table sets forth the detailed information of our proprietary loans by the type of security provided for such loans,

	Principal amount (RMB in millions)	Period	Guarantee	Collateral	Loan-to-value	Industry of the borrower
Loan 1	100.0	12/9/2014– 3/30/2015	Yes	Yes	5.9%	Manufacturing
Loan 2	41.5	6/20/2014– 2/12/2015	No	Yes	30.2%	Manufacturing
Loan 3	49.9	12/21/2015– 12/20/2016	Yes	Yes	48.2%	Construction
Loan 4	250.0	12/30/2015– 2/29/2016	Yes	No	N/A	Manufacturing, Real Estate

Our annual assets allocation plan for 2017 did not set any limit on the percentage or amount of our proprietary assets that may be used to grant proprietary loans.

- *Trust Industry Protection Fund*

CBRC issued the *Administrative Measures on Trust Industry Protection Fund* in December 2014, pursuant to which all trust companies in China established a mutual support fund to provide liquidity support to trust companies in certain unusual circumstances. Each of the trust companies in China, including us, is required to subscribe for units of the fund in an amount equal to the sum of (i) 1% of its net assets, (ii) 1% of the newly issued amount of the fund trusts, and (iii) 5% of the trustee's remunerations of its newly established property trusts. The protection fund may be utilized by the designated manager, China Trust Protection Fund Co., Ltd., if (i) a trust company is in insolvency and requires a restructuring, (ii) a trust company enters into the bankruptcy process, (iii) a trust company is ordered to terminate business and revoked due to the violation of

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laws and regulations, (iv) a trust company requires temporary liquidity support, or (v) other circumstances which need to utilize the protection fund. A trust company which intends to utilize the protection fund may submit an application with China Trust Protection Fund Co., Ltd. and both parties shall negotiate the amount and other terms and conditions in connection with the utilization of such fund.

The subscription price with respect to the net assets and the property trusts is to be paid by us. For investment fund trusts, though we will pay for the subscription price, we are able to treat this as a part of the trust assets investment portfolio pursuant to our agreements with our trustor clients. With respect to financing fund trusts, the subscription price is to be paid by our counterparties in such financing transactions. The risk level of subscription to the Trust Industry Protection Fund is considered low because the amounts paid to the Trust Industry Protection Fund will be managed and used (including returned to us under certain circumstances) by China Trust Protection Fund Co., Ltd, according to relevant PRC laws and regulations. As of December 31, 2015 and 2016 and May 31, 2016 and 2017, our interests in the Trust Industry Protection Fund amounted to RMB43.5 million, RMB57.8 million, RMB50.1 million and RMB72.3 million, respectively.

- *Others*

We made advance payments of RMB161.0 million, RMB228.1 million, nil and nil as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, for the construction of two office buildings which we originally planed to purchase from an independent third party upon the completion of the construction. Due to recent government policy discouraging state-owned enterprises from purchasing new office buildings, we disposed of our interests with respect to this construction project to a government related entity. We recognized other operating income of RMB 31.0 million from the disposal.

BUSINESS NETWORK

While our headquarters are located in Jinan, Shandong province, our businesses are not subject to geographical restrictions in China and we have conducted businesses in many cities and provinces in China.

Trust companies in China are not allowed to establish subsidiaries or branches without the approval of relevant regulatory authorities. As such, in order to get closer to our various clients in different regions and cities in China and better serve these clients, we have established eight regional business units, including four first-level regional business units for Shenzhen, Shanghai, Beijing and Qingdao, and four second-level regional business units for Xiamen, Nanjing, Changsha and Xi'an.

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The following table sets forth the geographic distribution of our regional business units as of the Latest Practicable Date.

<u>Region</u>	<u>First-Level Regional Business Units</u>	<u>Second-Level Regional Business Units</u>
Southern China	• Shenzhen	• Xiamen
Eastern China	• Shanghai	• Nanjing
Northern China	• Beijing	
Western China		• Xi'an
Central China		• Changsha
Shandong province	• Qingdao	

While our regional business units may have different focus based on the cities where they operate, we do not impose any geographical restrictions on the business that may be conducted by any of our regional business units. Similar to our business teams based in the headquarters, we encourage our regional business units to actively develop new businesses on a nationwide basis. We believe such an open environment will encourage healthy competition among our different business teams and regional business units and help us better capture favorable business opportunities throughout the country.

Our regional business units only perform business development functions for our trust business. Once they have developed a business plan, it must be sent back to our headquarters and follow the same procedures for establishment of our trusts and investment of trust assets. All of the risk management and back-office support functions will also be performed by the relevant departments at our headquarters with respect to these trusts.

INFORMATION TECHNOLOGY

We highly recognize the importance of information technology and believe it is a key component required for the successful expansion of our business and enhancement of our risk management and internal controls. We have always viewed the continuous advancement of our information technology as a key aspect of our core competitiveness.

Information Technology Infrastructure

We have an information technology center at our headquarters in Jinan, Shandong province. We have utilized both physical and logical techniques to manage our information technology risks. We have 60 servers in our information technology center. Our Information Technology and Operation Department will back up different types of data on a daily, weekly and monthly basis to external drives and store these backup data off-site in safe deposit boxes at reputable banks which can be conveniently retrieved by us. We have been devoted to ensure our efficient emergency response and restoration capabilities through regular drills and trainings.

Information Systems

We have established various information systems to cover different aspects of our business operations. Currently we have the following information systems.

- ***Comprehensive Management System***

This is our overall management system that covers the entire chain of our business operations. It unifies our various business processes and enables centralized management and application of our database. Each of our other information systems interfaces with this system.

- ***Trust Transfer Agent System***

Our trust transfer agent system covers the investment side of our trust business. It collects information and manage our relationships with trustors of our trusts. All key terms of our trust contracts with trustors are entered into this system which enable different departments to monitor our performance of our various administrative functions under the trust contracts, such as the establishment of trusts, collection of trust funds from trustors, creation and management of trustors' and beneficiaries' accounts with us, distribution of trust benefits to beneficiaries, transfer of beneficial rights or trust units by beneficiaries, and liquidation of the trusts.

- ***Assets Management System***

Our assets management system covers the financing side of our trust business for non-standard investments, including loans to various types of borrowers such as real estate companies, local governments and their financing platforms, industrial and commercial enterprises, and equity investments in various types of unlisted companies. All key information about our contracts with counterparties, such as interest rates on our loans and their payment dates, as well as other risk control measures required by us, are entered into this system so that the system can monitor our management of the investments, send reminders to relevant employees and ensure that all of our departments duly perform their functions in accordance with our contracts with the counterparties and our internal requirements. For example, our assets management system will automatically calculate the amount of interest due on our loans in each period and such information will be shared with several departments to ensure we collect the correct amount of interest payment in a timely manner. The system also monitors the creation and release of our security interests in collaterals.

We are required to report credit status of our counterparties to PBOC for their monitoring purpose. Our assets management system manages a database on credit information of our counterparties, and we submit such information to PBOC on a regular basis. Through our assets management system, we are also able to check credit information of our counterparties in PBOC's Credit Reference System, which facilitates our own evaluation and monitoring of our financing trusts.

- ***Evaluation and Verification System***

Our evaluation and verification system is used for management of investments in standard financial products, such as publicly traded stocks, bonds or fund units. Many of our securities investment trusts invest in these standard financial products and the trust contracts require us to take various actions based on the NAV of these assets. See “— Our Trust Business — Our Trust Product Lines — Investment Trusts — Securities Investment Trusts”. The evaluation and verification system will retrieve price information of these products from public markets and perform evaluation of the NAV of these products on a (T+1) basis (on the next day after the transaction date).

- ***Securities Trading System***

Our securities trading system is an interfacing system among us, our securities brokers and investment advisors of our securities investment trusts. While investment advisors cannot trade securities held by our trusts directly and can only offer advice to us, given the swift nature of securities market, we need to execute on the advice as soon as possible after receive it from the investment advisor. This system allows us to set the permissible range of trading instructions based on trust contracts for the relevant trusts, and when we receive a trading advice from the investment advisor, the system will determine whether the suggested trade is within the permissible range, and if yes, the system will send corresponding instruction to our securities brokers to execute on the advice. The automation offered by this securities trading system significantly reduced consumption of our manpower and enable us to manage more securities investment trusts at the same time. We also have an investment winner trading system similar to the securities trading system. It provides a platform for the investment advisors we engage for our trusts to offer advice for securities trading, which will be forwarded to our securities trading system and executed once its conformance with requirements set out in the trust contracts is confirmed. In addition, this system also helps collect market information for investment advisors to make informed investment decisions. It improves the efficiency of executing instructions based on investment advice provided by the investment advisors.

- ***Financial Accounting System***

Our financial accounting system allows us to gather accounting information, performs relevant verification and confirmation procedures, and generates various financial statements for our business management analysis purposes, and to satisfy the financial accounting requirements set by MOF. We have recently switched to a new financial accounting system that are connected to the other information systems of our business operations. Our previous financial accounting system was a stand-alone system where business data must be manually input into the financial accounting system. Following the launch of our new system, our business records are automatically converted into financial and accounting records, which significantly reduced consumption of our manpower and increased the accuracy, promptness and reliability of our financial reporting.

- ***Cash Clearing System***

Our cash clearing system helps us monitor the receipt and payment of funds, including payment of certain fees. It connects with our comprehensive management system to record the transfer of funds, and transmits the payment orders to custodian banks to make the payments for our trusts via various methods, such as through Shenzhen Securities Communications platform.

- ***Online Trust Platform***

We have developed the Online Trust Platform for the convenience of our trustor clients. This online platform is connected to our CRM system and allows our trustor clients to check the status of their investments in our trusts and their transaction history, as well as to submit applications or make appointment to subscribe for our trust products they are interested in. Trustor clients may also make reservations and submit their complaints and suggestions to us through this platform. Currently this system is limited to trustor clients who have previously invested in our trusts only, and we plan to extend the user scope to potential clients in the near future.

- ***Our Website***

Our website provides general information about us and various types of trusts we provide. On our website, we publish information relating to our proposed new trusts and establishment notices of such trusts. Potential trustor clients may access our website for the latest information of our trusts, as well as making appointments with our client managers to further explore on the products they are interested in. We also provide a link to the Online Trust Platform for trustor clients to check further information about their investments in our trusts.

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- ***Public Account on WeChat***

We have opened a public account on WeChat for our marketing on the mobile platform. Similar to our online trust platform, we also publish general information about our Company, information relating to our proposed new trusts and establishment notices of such trusts on our public account. Our public account on WeChat is connected to the Online Trust Platform so that trustor clients may easily check their trust contracts, the status of their investments in our trusts and relevant transaction details on their phones.

- ***Customer Relationship Management System***

See “— Our Trust Business — Our Clients — Client Management and Customer Service”.

- ***Regulatory Reporting Systems***

We are subject to the supervision and reporting requirements of CBRC and PBOC, and have established different reporting systems to meet such requirements.

- ***1104 & EAST Reporting System required by CBRC***

1104 & EAST Reporting System is a statistic reporting system developed by CBRC for the purpose of monitoring business operation of financial institutions in the banking industry. “1104” refers to the information technology system designed for supervision and monitoring of the banking industry launched by CBRC on November 4, 2003. “EAST” refers to Examination and Analysis System Technology, which was required by CBRC for the purpose of discovering non-compliance and monitoring risk exposure during the business operation. Pursuant to these reporting requirements, we collect our business and financial data of our trust business and proprietary business from our database, send the data to our compliance department for their review, and then submit the data to Shandong Office of CBRC, who will later deliver it to CBRC. EAST delivers such data in physical forms on the 20th day after the end of each quarter. 1104 delivers such data in physical forms before the 15th day of each month.

- ***EAST Reporting System required by the Shandong Office of CBRC***

This is a similar system to 1104 & EAST Reporting System, but we need to report more comprehensive information through EAST Reporting System required by the Shandong Office of CBRC according to its requirements. Our finance department is responsible for filing detailed business and financial data through Intranet connection with the Shandong Office of CBRC on a

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daily basis. In addition, as required by the Shandong Office of CBRC, we also prepare reports relating to trust schemes which are deemed to involve specific risk exposures in accordance with the CBRC guidance, which are submitted to the Shandong Office of CBRC on a monthly basis.

- ***Fund Trusts Reporting System required by PBOC***

In accordance with the reporting requirements set by PBOC for wealth management products and fund trusts, we are required to report detailed information of our fund trusts operations to PBOC, including but not limited to the information in relation to the fundraising for our trusts, wealth management products that our trusts invest in, and our assets and liabilities data. We report such information to PBOC on a monthly basis. With the integration of our business system and financial accounting system, we have developed the Fund Trusts Reporting System to allow electronic submission of such information to PBOC in an automatic and more efficient way.

- ***Anti-Money Laundering System***

Pursuant to the requirements set out by China Anti-Money Laundering Monitoring and Analysis Center, we launched the anti-money laundering system developed by PBOC to detect potential money laundering activities of our trustor clients. Before we establish any business with a potential client, we will ask the client to provide various information, so that we could use the information to check against the database maintained by PBOC to identify any potential money laundering issues and risks, and report to PBOC if we identify any suspicious parties or transactions.

- ***Information Technology Monitoring System***

Our information technology monitoring system monitors on a real time basis the proper functioning of all of our other information systems and network connections and will promptly notify us of any issues identified.

We engaged Hundsun Technologies, a leading Chinese supplier of financial software, to establish and maintain our information systems. We believe we are one of the first trust companies that used the information systems developed by Hundsun Technologies, and according to Hundsun Technologies, its systems have been adopted by many trust companies in China. The software provider we employed will remind us the potential risks of our system in advance via emails and phones so as to effectively avoid system failures caused by system vulnerabilities.

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Information Technology Risk Management

Our information technology risk management is an integral part of our risk management system. Please refer to “Risk Management” in this prospectus. We have also completed the classification and filing procedures for our critical information systems pursuant to the requirements relating to the classification and protection of national critical information systems.

COMPETITION

Since we operate our trust business on a nationwide basis, we compete with all other trust companies in China. As of the Latest Practicable Date, there were 68 trust companies in China, including us. The principal competitive factors in the business we operate include client base, knowledge of the relevant industries, active management capability, innovation capability, geographic coverage, reputation, creditworthiness, shareholder background and support.

For our financing trust business, we essentially provide private placement investment banking services to corporations and institutions in various different industries sectors. As such, we also compete with other financial institutions that may offer financings to similar types of clients. For example, we compete with offshore investment banks which helped Chinese real estate developers issue high-yield bonds in the overseas markets in recent years. While commercial banks has been restricted from providing loans to certain industry in the past, such policy restrictions may be removed in the future and they may start to provide such loans, thus competing with us for similar clients and assets. In addition, we may be competing with Chinese securities firms for our target clients.

For our investment trust business, we essentially provide asset management and wealth management services to institutional investors and HNWI to satisfy their diversified investment needs. As such, we also compete with securities investment fund management companies, securities companies, assets management companies, private equity investment companies and private banks in the PRC and other institutions qualified to conduct asset management and wealth management business. Primary factors affecting our competitiveness in this business include the depth and breadth of our financial products and services, the experience and capabilities of our professional teams, our ability to acquire high quality projects, our management and risk control capabilities, and our disposal capabilities and level of returns of investment.

Some of our competitors may have certain competitive advantages over us which enable them to have a better access to potential clients than us, including richer financial resources, stronger brand recognition, a broader range of products and services offering, more extensive operating experience, higher market share and a more extensive distribution network, stronger business relationships, and a longer operational track record in the relevant geographic markets. Some of our competitors in other financial sectors, such as securities companies and securities investment fund management companies

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which are regulated by CSRC, have historically not been subject to similar net capital requirements as we do with respect to their asset management business, which may provide them with certain competitive advantage. CSRC amended the *Administrative Measures on Risk Control Indicators for Securities Companies* (證券公司風險控制指標管理辦法) in June 2016 and adopted the *Interim Provisions on Administration of Risk Control Indicators for Specific Client Asset Management Subsidiaries of Fund Management Companies* (基金管理公司特定客戶資產管理子公司風險控制指標管理暫行規定) in December 2016, which enhanced capital requirements on securities companies and securities investment fund management companies with respect to their asset management business and may impact the competitive landscape between us and these competitors. There have also been recent news reports that the CBRC is drafting new rules to restrict the type of investments that commercial banks in China may make with funds raised from their wealth management products. While the proposed new rules have not been finalized or promulgated and therefore it is uncertain what the final rules will be, when they will be promulgated or how they will be interpreted and implemented, there have been news reports that the new rules may prohibit commercial banks in China from investing funds raised from their wealth management products into assets management products of securities companies and securities investment fund management companies. There may also be new restrictions and enhanced capital requirements for investment of such funds in trust products. Depending on the content of the final rules and how they are interpreted and implemented, the new rules are likely to impact the competitive landscape among us and other financial institutions.

EMPLOYEES

We had 169, 194, 192 and 202 employees as of December 31, 2014, 2015, 2016 and the Latest Practicable Date, respectively, all of which are full-time employees.

As the Latest Practicable Date, out of our 202 employees, 174 were based in our head office in Jinan, and 28 were based in our regional business units.

Our employees held licenses and professional qualifications in various categories, including, among others, certified public accountant in China and other jurisdictions such as Australia and the United States, certified tax agent, financial risk manager, certified public valuer, certified property valuer, chartered financial analyst, enterprise legal counsel, financial planner, financial risk analyst, investment construction project manager, attorney, as well as qualifications in securities practice, banking and futures investment sectors.

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The table below sets forth details of our employees by functions as of the Latest Practicable Date.

	<u>As of the Latest Practicable Date</u>	
	<u>Number of employees</u>	<u>% of total</u>
Management	7	3.5
Trust business employees ⁽¹⁾	75	37.1
Proprietary business employees	5	2.5
Wealth management employees	19	9.4
Risk management and audit employees	34	16.8
Financial and accounting employees	17	8.4
Operation management employees	31	15.4
Other staff ⁽²⁾	14	6.9
Total	202	100.0

Notes:

- (1) Includes employees at our trust business departments and regional business units.
- (2) Includes employees at our human resources, research and development and other supporting departments.

The table below sets forth details of our employees by age as of the Latest Practicable Date.

	<u>As of the Latest Practicable Date</u>	
	<u>Number of employees</u>	<u>% of total</u>
Aged 25 and below	5	2.5
Aged 25–29	48	23.8
Aged 30–39	99	49.0
Aged 40 and above	50	24.7
Total	202	100.0

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The table below sets forth details of our employees by education level as of the Latest Practicable Date.

	As of the Latest Practicable Date	
	Number of employees	% of total
Doctoral degree and above	6	3.0
Master's degree	138	68.3
Bachelor's degree	48	23.7
Junior college and below	10	5.0
Total	202	100.0

We believe the competence and loyalty of our employees are vital to our sustainable growth. We have adopted a market-oriented performance assessment and incentive system, under which compensation is linked to employee's performance. Performance assessment systems provide the basis for human resources related decisions such as compensation adjustment, bonus distribution, promotion, talent development, and employee incentives.

We provide social insurance (including pension insurance, medical insurance, employment injury insurance, unemployment insurance, maternity insurance) and housing provident fund for our employees in accordance with the relevant laws and regulations of the PRC. We also provide supplementary pension insurance and medical insurance for employees.

We provide a diverse range of trainings to our employees, including orientation for new hires, professional skill training, qualification training and professional technology management training to improve employees' professional skills, and provide them with diversified career paths in order to better attract and retain talent. We have various training types, including video training, field training, domestic and overseas study, general trainings and targeted trainings. We combine various content and training types to provide tailor-made and effective trainings.

Our employees have participated in labor union that safeguards the rights and interests of our employees, and coordinates closely with management with respect to human resources matters. Our operations have never been affected by any strike or significant labor dispute. We believe our management will continue to maintain good relationships with the labor union and our employees.

PROPERTIES

As of May 31, 2017, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Owned Properties

As of the Latest Practicable Date, we possessed and used three properties with aggregate gross floor area of approximately 12,195 square meters in the PRC, located in Jinan, all of which comprised the office building used as our headquarters. We have obtained property ownership certificates for those buildings and the land use rights for the underlying land. We have been advised by Fangda Partners, our PRC legal counsel, that we have legal ownership and land use right over those properties and are entitled to possess, use, transfer, lease, mortgage or otherwise dispose of those properties.

As of the Latest Practicable Date, we entered into agreements to purchase the ownership of 12 properties with aggregate gross floor area of approximately 1,183 square meters located in Jinan, China for the expansion of our Wealth Management Center, and we had paid the full purchase price and were undergoing procedures to register as the owner of those properties and the underlying land use right.

In addition, as of the Latest Practicable Date, we held land use right to a parcel of land with total site area of approximately 4,067 square meters located adjacent to our headquarters in Jinan. The land use right certificate for this land parcel is registered under our former name, Shandong International Trust Investment Company. We have used the land parcel mainly as parking lot but have built temporary facilities on a small portion of the land which are used as our garages and employees' dining facility. Because we obtained the land use right for this land parcel through administrative allocation, we could not obtain any building ownership certificate for these temporary facilities. As we viewed them as temporary facilities, we did not go through the approval procedures for project initiation, planning and construction when we built them. According to relevant PRC laws and regulations, the maximum potential legal liabilities resulting from the failure to go through the approval procedures (if required for the construction of the temporary facilities) may include fines of up to 12% of the construction costs of the facilities, demolition or confiscation of the facilities, and confiscation of income from such facilities. As we did not incur any material costs in the construction of these facilities and did not generate any income from these facilities, and the book value of these facilities is zero, and considering the current use of these temporary facilities, we do not believe any of the potential legal

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liabilities described above will have any material adverse effect on our business, financial position or results of operations. Based on the above, our Directors are also of the view that none of these temporary facilities are individually or collectively crucial to our operation.


Up to the Latest Practicable Date, we had never been challenged, investigated or penalized by any authorities in connection with the construction and use of the temporary facilities. We have been advised by Fangda Partners, our PRC legal counsel, that there are no substantive legal obstacles preventing us from possessing or using these temporary facilities given that we have obtained the land use right certificate for the land parcel on which the temporary facilities are located, but we may not transfer, mortgage or otherwise dispose of the land use right to the land parcel or the temporary facilities until we complete land assignment procedures with respect to the land parcel and obtain a building ownership certificate for the temporary facilities.

Leased Properties

As of the Latest Practicable Date, we leased from third parties three properties for office and business use in the PRC with an aggregate gross floor areas of approximately 473 square meters.

The lease agreements of our leased areas had not been registered and filed with the relevant land and real estate administration bureaus in the PRC. As advised by our PRC legal counsel, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements and we are able to continue to occupy and use the leased properties subject to the lease terms.

INTELLECTUAL PROPERTY RIGHTS

We operate our business under the brand names of “山东信托”, “山東信託”, “SITIC”, “SITC” and certain other brand names and logos. As the words contained in “山东信托” and “山東信託” were deemed to be too generic to be registered as trademarks, our registration applications for these two trademarks were rejected in China. As of the Latest Practicable Date, we did not own any trademarks in the PRC or other jurisdictions. We use some brand names and logos of our parent company, Lucion Group, including combinations of “魯信”, “LUXIN”, “LUCION” and  in our history, which Lucion Group has granted us non-exclusive license. As of the Latest Practicable Date, we owned one domain name, namely www.sitic.com.cn. The website is frequently used by our clients to access our information and conduct business with us. Details of our major intellectual property rights are set out in “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Our Intellectual Property Rights” in this prospectus. We were not aware of any material incidents of intellectual property rights infringement claims or litigation initiated by others against us or *vice versa* during the Track Record Period.

LEGAL AND REGULATORY PROCEEDINGS

Overview

We have been involved in legal and/or regulatory proceedings or disputes in our ordinary course of business. As of the Latest Practicable Date, we were not aware of any legal and/or regulatory proceedings or disputes that, in the opinion of our management, would have a material adverse effect on our business, financial condition, results of operations or prospects.

Our operations in the PRC are subject to review and inspection by relevant governmental authorities, including the CBRC, SASAC, PBOC, SAFE, NAO and SAT. As of the Latest Practicable Date, we were not aware of any review or inspection conducted by the CBRC, SASAC and other regulatory authorities in the PRC that would have a material adverse effect on our business, financial conditions, results of operations or prospects. Pursuant to *the Notice of the General Office of the China Banking Regulatory Commission on Enhancing the Supervision over Risk Management of Trust Companies* (中國銀監會辦公廳關於進一步加強信託公司風險監管工作的意見), the CBRC and its local offices supervise and regulate trust companies using a combination of off-site supervisions and on-site inspections. The CBRC and its local offices may formulate and arrange for on-site inspecting plans based on the results of off-site supervisions.

Qualifications

During the Track Record Period and as of the Latest Practicable Date, we had complied with the applicable regulatory requirements of the PRC in all material respects. We have also obtained all material qualifications and permits necessary for our current operations in accordance with PRC laws and regulations as of the Latest Practicable Date.

Litigations and Arbitrations

As of the Latest Practicable Date, we were involved in five pending material unresolved litigations and arbitrations as the plaintiff and applicant, in each of which the amount in dispute was more than RMB10 million, with the aggregate amount in dispute of RMB689.4 million. These legal proceedings were mainly brought by us against the relevant counterparty clients due to their default under the loans granted by our trusts.

As of the Latest Practicable Date, two of these legal proceedings are at first trial stage, one is at second trial stage, the defendants of which case have appealed after the court ruled in our favor in first trial, one is in arbitration proceedings, one is in re-trial stage, which the court ruled in our favor for part of our requests in first and second trial, but because we are not satisfied with the result of judgment, we applied for retrial, which is pending. One of these five legal proceedings was filed by us, as trustee, against the counterparty of a consolidated trust scheme to which we provided liquidity support, as of May 31, 2017, we had made provision in the amount of RMB64.0 million for such legal

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proceeding, representing 100% of the outstanding amount due from such counterparty to the consolidated trust scheme (which included the amount in dispute). We did not make any provision for the amounts in dispute in the remaining seven legal proceedings because,

- All of these seven legal proceedings were initiated by us, as trustee, of our unconsolidated, administrative management trusts, which are plaintiffs in these legal proceedings against their counterparties;
- If we lose in any or all of these seven legal proceedings, the relevant unconsolidated, administrative management trusts may suffer losses on their trust assets, but we will not be responsible for such losses except for losses caused by our failure to properly fulfill our duty as the trustee;
- No claim has been made by any party that we have not properly fulfilled our duty as the trustee of any of these unconsolidated, administrative management trusts;
- Any loss suffered by our unconsolidated trust schemes will not be deemed as loss of our Group and will not be included in our consolidated financial statements; and
- Due to the above, we do not expect to suffer any loss even if we lose in any or all of these seven legal proceedings.

As of the Latest Practicable Date, we were involved in two pending lawsuits as the defendant and one pending lawsuit as an interested third party.

One of the lawsuits in which we are defendant is brought by nine individuals who granted collective loans to the labor union of their employer, which, subsequently as a trustor client, set up an administrative management trust with us utilizing such loans. The nine individuals initiated the lawsuit against the counterparty of the relevant trust after it defaulted and the trustor client and we were listed as co-defendants. Plaintiffs claimed that the counterparty defaulted in repayment of the principal in the amount of RMB13.84 million and the interest in the amount of approximately RMB1.71 million. The court ruled in our favour in the first trial and the plaintiffs appealed without including us as a defendant in the second trial, but as the second trial court demanded the first trial court to have a retrial, we are still a co-defendant in the retrial.

The other lawsuit in which we are a defendant is brought by an entity which set up an asset management scheme as a client and asset of such asset management scheme was utilized by the manager of the asset management scheme to set up an administrative management trust with us to extend a loan. The lender initiated the lawsuit against the four guarantors under the loan arrangement between the borrower and the administrative management trust and the manager of the asset management scheme and we were listed

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as co-defendants after the borrower defaulted and became insolvent. The plaintiff claimed the payment of RMB105.95 million and relevant fees. This litigation is at first trial stage.

The plaintiff of the lawsuit where we were listed as an interested third party was the investor of a targeted asset management scheme established by a third-party securities firm, which then established an administrative management trust with us to acquire accounts receivable of another company (the debtor). The plaintiff claimed that the debtor defaulted in repayment of the accounts receivable of RMB200 million and should also pay default interest of RMB51.9 million. The plaintiff is suing the debtor and several guarantors and security providers for the accounts receivable as co-defendants to recover the accounts receivable and default interest. We are not a defendant in this litigation and none of the co-defendants or the securities firm is a related party of us. The plaintiff, however, listed us (as trustee of the administrative management trust) and the securities firm (as manager of the targeted asset management scheme) as interested third parties on the basis that, if the co-defendants are unable to fully fulfill their obligations to the plaintiff, the plaintiff will ask us and the securities firm to compensate it for its remaining loss. The court ruled in favour of us in the first trial. The defendant has appealed to another court and the case is currently at second trial stage.

We believe these claims or potential claim by the plaintiffs against us are frivolous because the trustors of the administrative management trusts were responsible for finding the counterparties, performing due diligence on the counterparties, and taking measures to monitor, mitigate and resolve risks after the trust establishment; and, as trustee of the administrative management trust, our responsibilities are limited to the administration of the trusts, including management of the special accounts, providing necessary paperwork when required by the trustors to facilitate its management of the trust assets, and allocation of the trust assets after liquidation. We believe we have fully fulfilled our responsibilities under these administrative management trusts and therefore should not be held responsible for any loss that may be suffered by the plaintiffs. The guarantees and other security provided for the loans/accounts receivable also made it less likely that the other defendants will not be able to fulfill their obligations (if any) to the plaintiff in this litigation. As such, we did not make any provision in connection with these litigations.

Also based on the above, our Directors do not expect such legal proceedings to have, individually or in aggregate, a material adverse effect on our financial condition or results of operations.

Administrative Proceedings, Penalties and Measures

As of the Latest Practicable Date, we were not aware of any material ongoing inspection on or investigation against us. During the Track Record Period and as of the Latest Practicable Date, except as disclosed below, we had not received any administrative penalties or other administrative measures due to non-compliance with any laws or regulations and none of our Directors was involved in any material administrative violations, proceedings or penalties.

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In response to certain customer complaints against us in late 2015, the Shandong Office of CBRC initiated an inspection on us in connection with one of our securities investment trusts, which suffered losses as a result of the significant declines in the Chinese stock market in 2015. We also commenced an internal investigation immediately after the customer complaints. The Shandong Office of CBRC found that we failed to mail written monthly NAV reports and written quarterly reports with respect to other matters of the trust to the trust's beneficiaries in accordance with the trust contract. It was also identified that we only notified representatives of the trustors by telephone or short messages when the trust's NAV fell below the warning line and the stop loss line and did not provide special reports to beneficiaries in a timely manner in accordance with the trust contract. Based on our internal investigation, we found that (i) we did not provide written monthly NAV reports and other written quarterly reports because we published weekly NAV reports on this trust on our website and provided NAV information as of the last trading day to trustors and beneficiaries of upon their requests, which we believe were sufficient disclosure; (ii) the trust contract did not require us to provide any special report when the trust's NAV fell below the warning line or the stop loss line; (iii) the trustee services we provided in connection with this trust were in compliance with the trust contract and the relevant laws and regulations in all material aspects; (iv) the relevant investors who filed the customer complaints were competent and qualified investors with corresponding risk tolerance for such investments; (v) the warning line and the stop loss line for this trust were reasonably set and clearly set forth in the trust contract and the measures we may take as the trustee when the warning line and the stop loss line were crossed were clearly set forth in the trust contract and agreed to by these investors; and (vi) the losses suffered by investors in this trust were primarily due to the significant decline in the Chinese stock markets during the period and, because we have timely published weekly NAV reports, there were not causal link between our failure to provide the written monthly or quarterly report or special reports and the investors' losses. On December 23, 2016, the Shandong Office of CBRC determined to impose a fine of RMB200,000 on us as the administrative penalty for this matter in accordance with the *Administrative Measures for Collective Fund Trust Schemes of Trust Companies* (信託公司集合資金信託計劃管理辦法). In addition, on September 27, 2017, the Shandong Office of CBRC issued a notice of administrative penalties, informing us that, based on the inspections conducted during October 2016 to April 2017, it contemplated to impose administrative penalties of a total of RMB400,000 on us for two incidents that were previously identified, namely: (i) our failure to conduct sufficient due diligence and implement risk management measures in the establishment of certain real estate trusts under which the relevant real estate companies or real estate projects did not maintain sufficient qualification, licences or permits; and (ii) certain of our trusts that were guaranteed by entities backed up by local government authorities were not in strict compliance with relevant regulatory requirements as we followed industry practices and business customs.

On the basis that (i) the amount of the administrative penalties are immaterial, (ii) the administrative penalties do not affect our qualification to continue to operate our business, (iii) we had settled the penalty imposed on us in December 2016, (iv) we had adopted rectification measures and enhanced our internal control system to address the issues

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identified by the Shandong Office of CBRC, and (v) we are in the process of appealing our case in connection with the penalty imposed in September 2017, and we have been advised by our PRC Legal Advisor that, the notice of administrative penalties is not final and the penalties may be waived or abated in whole or in part by the Shandong Office of CBRC as a result of our appeal, but will not, in any case, be increased merely due to the act of our appeal, as such, our Directors do not expect such administrative penalties to have any material adverse effect on our financial condition or results of operations. As of the Latest Practicable Date, we had not been sued by any party in connection with these trusts. However, we cannot assure you that investors of these trusts will not file any lawsuit against us in the future.

We had adopted various rectification measures after the customer complaints and internal inspection. We had enhanced our internal control policies regarding information disclosure requirements of trust products and had reviewed and optimized our customer communication processes in order to ensure full disclosure in a timely manner as well as to avoid miscommunication in the future. We had also improved our form contract terms to reflect best practice. For more details about the inspections initiated by the Shandong Office of CBRC, their key findings and recommendations, as well as the major rectification measures we had adopted in response to each of the inspections, please also refer to “— Regulatory Inspections — CBRC” from page 296 to page 305 below.

On August 14, 2017, we received a supervisory warning letter from the Shandong Office of CSRC, which informed us that we had the following issues in carrying out private equity fund related business: (i) failure to promptly update certain information to be filed; (ii) failure to keep separate accounts for funds managed by us; (iii) failure of certain senior management personnel and fund practitioners to obtain necessary qualification; (iv) insufficient disclosure of certain information; and (v) internal control measures being not comprehensive enough. The letter issued a warning to us as an administrative supervisory measure and required us to take remedial measures and submit a rectification report by September 30, 2017. We have taken active measures to rectify the issues identified in the letter and submitted the rectification report on September 10, 2017. In response to the supervisory warning letter, (i) we had completed the filing of outstanding or outdated information; (ii) we had set up a separate account for relevant trust; (iii) the majority of our relevant senior management and fund practitioners had passed the fund and/or securities qualification examinations and obtained the qualifications, and one senior management is currently preparing the qualification examination and expects to obtain the qualification as soon as practicable; (iv) we had updated our quarterly disclosure materials and relevant form contracts, including but not limited to the form contract terms in connection with investment cooling-off period, improving standard investor questionnaire and standard investment risk disclosure statements, to strictly follow the relevant guidance and regulations; and (v) we had reviewed and improved our internal control procedures and policies. For example, we had implemented guidance on Chinese wall system to prevent insider information and conflict of interests, and implemented policies on the regulation of selection of custodians and sales channels. We had also improved securities qualification reporting policy in order to enhance our management of staff engaging in the relevant

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business. In addition, we had improved our private equity fund promotion and distribution management policies and the fund information disclosure policies, to conform with the relevant guidance issued by Asset Management Association of China. We will comply with the improved guidance and policies during our operations going forward and will require the relevant management and staff to obtain their fund and/or securities qualification in a timely manner. In addition, we will monitor the changing market conditions and regulatory requirements on an on-going basis and will update our guidance and policies accordingly or implement new policies if necessary. Our Directors do not expect such administrative supervisory measure to have any material adverse effect on our business, financial condition or results of operation. Based on the rectification measures we have adopted or committed to adopt as requested by the competent authorities and after due inquiries with the relevant authorities, our PRC Legal Advisor is of the view that the likelihood that we will be penalized in connection with the non-compliance issues raised in the supervisory warning letter is remote.

The trust industry in which we operate has been evolving over the past several years. Despite our internal control systems which are still under development, we believe that the historical administrative proceedings were also a result of constantly changing market practices, regulatory regimes and focuses of laws and policies. We endeavor to continuously streamlining and refining our risk management systems and internal regulations on an on-going basis. Our Directors are of the view that such incidents does not represent a material internal control deficiency.

Having taking into account (i) the view of the Directors; (ii) the view of the PRC Legal Advisors of the Company and the Joint Sponsors; (iii) the review results of the internal control consultant of the Company; and (iv) the rectification measures adopted by the Company in response to the warning letter, nothing has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to believe that such incident represent a material internal control deficiency of the Company.

Regulatory Inspections

PRC regulatory authorities have identified certain deficiencies in our corporate governance, internal control, financial management, risk management and business operations in some of their routine or ad hoc inspections on us. We have promptly taken rectification measures based on the findings and recommendations from relevant regulatory authorities and improved our corporate governance, internal control, financial management, risk management and business operations. As of the Latest Practicable Date, PRC regulatory authorities did not have further comments on our rectification measures set forth in our rectification plans or reports, as the case may be, and our implementation of such measures, did not require us to take any further rectification actions, and, save as disclosed in “— Administrative Proceedings, Penalties and Measures” above, did not impose any penalty on us as a result of these inspection findings. Based on such inspection findings, we believe that we have no significant deficiencies with respect to our corporate governance, internal control, financial

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management, risk management and business operations, and that the above-mentioned inspection findings have no material adverse effect on our business, financial condition or results of operations. In addition, we have obtained supervisory opinion from the Shandong Office of CBRC on June 28, 2016, in which the Shandong Office of CBRC concluded that our major regulatory indicators were in compliance with the PRC laws and regulations. Based on the above and as advised by our PRC legal advisor, the key issues identified by the regulatory authorities during these inspections will not have any material adverse legal or financial impact on our Group.

The key inspection findings are summarized as follows.

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The Shandong Office of CBRC conduct routine and ad hoc inspections on us, including on-site inspections and annual prudential meetings with us to assess and review our corporate governance, internal control, financial management, risk management and the prudence of our business operations, and issued inspection reports. During the Track Record Period and up to the Latest Practicable Date, the Shandong Office of CBRC has issued inspection reports dated (i) September 23, 2014 based on its routine annual inspection from March 26, 2014 to May 24, 2014, (ii) June 5, 2015 based on its routine annual inspection from March 25, 2015 to April 15, 2015, (iii) October 10, 2016 based on its *ad hoc* inspection from May 31, 2016 to June 30, 2016 on our structured securities investment trusts that focused on stock investments, (iv) November 28, 2016 based on its *ad hoc* inspection from October 11, 2016 to October 28, 2016 pursuant to the Notice of the General Office of the CBRC on Carrying Out “Two Reinforcements, Two Curtailments” and Look-Back Work in the Entire Banking Industry (中國銀監會辦公廳關於全面開展銀行業“兩個加強、兩個遏制”回頭看工作的通知), (v) December 6, 2016 based on its *ad hoc* inspection from November 15, 2016 to November 18, 2016 pursuant to the Urgent Notice of CBRC on Carrying Out Special Inspection on Real Estate Related Business of Financial Institutions in the Banking Industry (關於開展銀行業金融機構房地產相關業務專項檢查的緊急通知), (vi) June 22, 2017 based on its *ad hoc* inspection from April 14, 2017 to April 28, 2017 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of “Regulatory Arbitrage, Idle Arbitrage and Affiliate Arbitrage” in the Banking Industry (中國銀監會辦公廳關於開展銀行業“監管套利、空轉套利、關聯套利”行為專項治理工作的通知), (vii) June 22, 2017 based on its *ad hoc* inspection from April 14, 2017 to April 28, 2017 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of Violation of Laws, Regulations and Rules in the Banking Industry (中國銀監會辦公廳關於開展銀行業“違法、違規、違章”行為專項治理工作的通知) and (viii) August 7, 2017 based on its *ad hoc* inspection from April 14 to April 28 pursuant to the Notice of the General Office of the CBRC on Addressing the Acts of “Inappropriate Innovation, Inappropriate Transaction, Inappropriate Incentive, Inappropriate Fee” in the Banking Industry (中國銀監會辦公廳關於開展銀行業“不當創新、不當交易、不當激勵、不當收費”專項治理工作的通知). In addition, during the Track Record Period and up to the Latest Practicable Date, the Shandong Office of CBRC has issued meeting minutes dated (i) April 20, 2016 for its annual prudential meeting with us on April 6, 2016, and (ii) April 20, 2017 for its annual prudential meeting with us on March 17,

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2017. During the Track Record Period and up to the Latest Practicable Date, the key issues identified and recommendations provided by the Shandong Office of CBRC as well as the major rectification measures we have adopted and plan to adopt are summarized as follows:

Key Issues and Recommendations

Our Major Rectification Measures

Corporate Governance

- There were certain defects in the operation of our Board of Supervisors, fulfillment of duties by the Board of Directors and some of its special committees, and procedures for formulating the procedural rules of the meetings of shareholders, Board of Directors and its special committees; and there were inconsistencies in our internal regulations with respect to the special committees of our Board of Directors.
- Some of our former non-executive Directors and Supervisors failed to duly perform their duties and did not attend some of the board meetings in person.
- We do not have an evaluation system to assess the fulfillment of responsibilities by our directors and supervisors.
- We optimized the organizational structure of the Board of Directors and Board of Supervisors to ensure the effective fulfillment of their responsibilities in January 2015. We formulated internal regulations to specify the allocation of responsibilities between Directors, Supervisors and senior management and each of their meeting procedures, as well as the operation of different special committees under the Board of Directors in January 2015.
- Our shareholders replaced those non-executive Directors and Supervisors who did not have sufficient time to devote to our business and we enhanced our compliance with all procedural rules with respect to the operation of our Board of Directors and Board of Supervisors in July 2015.
- We have implemented a formal guidance to standardize and improve the evaluation system to assess the fulfillment of responsibilities by our directors and supervisors.

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Key Issues and Recommendations

Our Major Rectification Measures

Internal Control

- Internal regulations are not comprehensive and some of them are not well designed.
- We strengthened our internal control system and engaged a third party consulting firm and an internal control consultant in March 2014. The third party consulting firm and an internal control consultant were engaged mainly to facilitate our joint-stock reform in 2014 and 2015 and to assist us in the improvement of our corporate governance. They also helped us streamline and refine our risk management systems and internal regulations. The internal control consultant also performed a comprehensive assessment of our risk management systems and their major findings included that (i) the allocation of responsibilities among our different board committees, among certain senior management positions and among functional departments could be further optimized; (ii) some of the board meeting minutes and other records were not properly kept; (iii) our internal regulations were not comprehensive enough; (iv) the approval authorities and approval procedures for our various businesses should be further improved; and (v) there were deficiencies in certain aspects of our risk management mechanism. Based on these findings, the internal control consultant and the third party consulting firm helped us prepare a comprehensive set of internal regulations which we adopted and streamlined and refined our risk management systems

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Key Issues and Recommendations

Our Major Rectification Measures

- in June 2015. Since the trust industry in which we operate has been evolving over the past several years, despite our internal control systems which are constantly improving along with the development in the trust industry, we believe that the historical regulatory administrative measures were also a result of constantly changing market practices, regulatory regimes and focuses of laws and policies. We plan to continuously improve and further enhance our internal control system, regulations and processes
- Internal audit is not sufficiently independent or effective.
 - We appointed an independent Director as the chairperson of our audit committee to enhance the independence of our internal audit function in July 2015. We improved our internal audit rules and processes and established an internal audit department in March 2016 and increased personnel for our internal audit department in March and April 2016.
 - Management and control of certain trusts by middle and back-office departments was not sufficiently effective.
 - We increased personnel for our middle and back-office departments and optimized the allocation of authorities and responsibilities among front, middle and back-office departments in 2014, 2015 and 2016.

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Key Issues and Recommendations

- The accountability of employees should be improved.
- The authority of our senior management in approving our various businesses should be properly documented.

Our Major Rectification Measures

- We enhanced the accountability of responsible departments and personnel and issued public censure, cancelled their qualifications for promotion, suspended and/or reduced their bonuses in case they failed to duly fulfill their responsibilities and caused risks of loss to our trusts or our Company in July 2015.
- We formulated and adopted internal regulations to clearly specify different authorities that our Board of Directors grant to our management with respect to different business activities and relevant approval procedures in January 2015.

Financial Management

- There were weaknesses in our financial management system and some of our financial management rules were not fully enforced in certain circumstances.
- We increased the number of our financial management personnel in 2015 and improved our IT system to allow more business operating data to be transferred automatically into our financial accounting system to increase the efficiency and accuracy of our financial reporting and management in January 2016.

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Key Issues and Recommendations

- Our management of service fees of various intermediaries were inconsistent.

Our Major Rectification Measures

- We enhanced management of service fees of various intermediaries, including setting forth standards for service fees that may be paid to intermediaries in accordance with applicable laws and regulations, requiring internal review and assessment of the reasonableness and legal compliance of any intermediaries' fees proposed in connection with any newly established trusts, and requiring the disclosure of any such fees in the relevant trust contracts; and we implemented these enhanced management measures in April and November 2014.

Risk Management

- The due diligence we performed in certain trusts were not sufficiently effective.
 - Some of our risk management measures were not fully enforced.
- We conducted self-review of all of our trust schemes to identify potential defects in due diligence and took necessary remedial measures in April 2015.
 - We enhanced process management of our trust business and formulated more detailed internal regulations to standardize various practices in our business operation and adopted rules for the periodic review and update of such regulations to ensure that they are up-to-date and can be conveniently and effectively followed by our various departments and employees in practice in February 2016.

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Key Issues and Recommendations

- Some of our trust schemes were subject to counterparty default risks and our disposition of the exposed risk of a troubled trust was not prompt enough and may have missed the best window for the disposition.
- Ex-post risk management, risk alert and information disclosure with respect to certain trusts were not sufficient.

Our Major Rectification Measures

- We established the Trust Business Ad-hoc Issue Coordination Group in December 2013, and Asset Disposition Department in July 2015, to help us coordinate efforts across different departments, promptly identify and report troubled trusts, and properly mitigate and dispose of risks arising from troubled trusts. In December 2016, we disposed of the assets of nine of our troubled trusts (including the one mentioned in the inspection report) as a package to Shandong Provincial Financial Asset Management Co., Ltd. As advised by our PRC legal advisers, such disposal did not contravene any relevant laws and regulations in the PRC.
- We continuously increased the involvement of our middle and back-office departments in the ex-post management of our trusts. We adopted special internal regulations on information disclosure to require prompt and full disclosure to trustors, beneficiaries and regulatory authorities. We started recording our trust contract signing process to document the sufficiency of our risk alerts to our trustor clients in January 2015. We also improved information disclosure to trustors and beneficiaries through the Internet and other new communication channels in November 2014.

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Key Issues and Recommendations

- Our internal control and management of securities investment trust business should be further improved.

- We failed to timely include in monthly reports to the Shandong Office of CBRC certain trust schemes that are deemed to involve specific risk exposure in accordance with the CBRC guidance.

Our Major Rectification Measures

- We switched to a new financial accounting system that are connected to the other information systems of our business operations in June 2016 which enabled our middle and back-office departments to monitor on a real-time basis the status of investments made by our securities investments trusts. In particular, we established an internal audit department in March 2016 to audit the operations of our various functional departments. We also plan to formulate dedicated, systematic and comprehensive procedures for selecting third-party advisors for our securities investment trusts and will file such procedures with the Shandong Office of CBRC.

- We reviewed our internal procedures for preparing such monthly reports, further clarified the standards for identifying trust schemes with exposed risks and designated special personnel of our risk management department to be responsible for the reporting.

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Key Issues and Recommendations

Our Major Rectification Measures

Operational Compliance

- We followed industry practices and business customs as opposed to regulatory requirements in certain circumstances and, as a result, the operation of some of our trusts were not in strict compliance with relevant regulatory requirements.
- We continuously increased the intensity and scope of compliance trainings to our employees. We updated and improved our internal regulations and operational procedures to reflect the requirements of all applicable regulations and policies and review and update them on a periodical basis to reflect latest changes in January 2015. We also continuously enhanced our efforts to promote compliance culture and enhanced internal compliance audit to promptly identify and rectify potential non-compliances.
- The provisions in some of our trust contracts have not been updated to reflect the business practices that we followed and resulted in our non-compliances with such contractual provisions in some circumstances.
- We reviewed the templates for our various business contracts, and based on consultation with relevant regulatory authorities, we revised and improved these templates to suit our actual business practices in July, November and December 2015.
- We failed to strictly comply with the requirements set forth in trust contracts for certain securities investment trusts.
- We upgraded our securities trading system in June 2016 which supports automatic update of the listing status of various securities and thereby enables us to strictly adhere to various requirements in trust contracts. We also enhanced coordination between our trust business departments and middle and back-office departments to ensure that our management of securities investment trusts are fully in compliance with their trust contracts.

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Key Issues and Recommendations

- We failed to mail written monthly NAV reports and written quarterly reports with respect to other matters to the beneficiaries and did not provide special reports to beneficiaries in a timely manner when the trust's NAV fell below the warning line and the stop loss line.

Our Major Rectification Measures

- We are revising our internal regulations on information disclosure to provide more concrete guidance and requirements and clarify responsibilities of different departments to ensure strict compliance with the relevant trust contracts.

Proprietary Business

- We used proprietary funds to invest in enterprises that are not financial institutions and we should dispose of these investments before we obtain the qualification to engage in such equity investments.
- Except for our investments in three of such enterprises that have ceased operation and had zero book value as of December 31, 2016, we have disposed of all our equity investments in other enterprises that are not financial institutions and reported our disposing plan and the progress we have made to the Shandong Office of the CBRC on a timely basis.

On September 27, 2017, the Shandong Office of CBRC issued a notice of administrative penalties, informing us that, based on the inspections conducted during October 2016 to April 2017, it contemplated to impose administrative penalties of a total of RMB400,000 on us for two incidents that were previously identified, namely: (i) our failure to conduct sufficient due diligence and implement risk management measures in the establishment of certain real estate trusts under which the relevant real estate companies or real estate projects did not maintain sufficient qualification, licences or permits; and (ii) certain of our trusts that were guaranteed by entities backed up by local government authorities were not in strict compliance with relevant regulatory requirements as we followed industry practices and business customs. The relevant trusts were established and operated by us during 2013 to 2016 and these incidents had already been previously identified in the inspection reports issued by the Shandong Office of CBRC as mentioned above.

PBOC

The Jinan Branch of PBOC conducts routine and ad hoc inspections on us to review our financial and accounting system and internal control relating mainly to our proprietary business and issued inspection report on December 26, 2014, providing the inspection results and relevant recommendations. During the Track Record Period and up to the Latest Practicable Date, the key issues identified and recommendations provided by the Jinan Office of PBOC, as well as our major rectification measures are summarized as follows:

Key Issues and Recommendations

Our Major Rectification Measures

Financial and Accounting System

- The accounting treatment for certain financial assets purchased under agreements to resell and reverse repurchase transactions were not in compliance with certain newly issued regulation of the PBOC on standardizing transactions among financial institutions and some of our functional departments were not aware of such newly issued regulation.
- We conducted special trainings on the new PBOC regulation on standardizing transactions among financial institutions March 2016 and continuously improved our procedures for circulation of new regulatory notices among different functional departments.

Internal Control

- We did not have written policy on the authority to approve different type of inter-bank businesses.
- We formulated and adopted internal regulations to clearly specify different authorities that our Board of Directors grant to our management with respect to different business activities and relevant approval procedures in January 2015.

Others

- Some of our business files for trust business were not complete and the term of some of our trust business with commercial banks were not in full compliance with the applicable minimum term requirement.
- We required all of our relevant departments to strengthen their filing system and study applicable regulations and policies to further standardize and improve our trust business, including business with commercial banks in January 2015.

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During the Track Record Period and up to the Latest Practicable Date, based on (i) there being no material adverse impact of the non-compliance incidents on our business, financial position or results of operation, (ii) the review results of the internal control consultant engaged by us, (iii) the conclusions and findings of the annual prudential meetings between the Shandong Office of CBRC and us, and (iv) the rectification measures we have adopted and plan to adopt, our Directors are of the view that (i) such non-compliance incidents do not constitute material non-compliance incidents; (ii) we have adequate and effective internal control and risk management to prevent reoccurrence of similar non-compliance incidents in the future and (iii) such incidents do not affect the Company's suitability for listing. Having taking into account (i) the view of the Directors; (ii) the view of the PRC legal advisors of the Company and the Joint Sponsors; and (iii) the review results of the internal control consultant of the Company, nothing has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to believe that (i) any key issue identified by the regulatory authorities during the inspections would have any material adverse legal or financial impact on the Company; and (ii) should the rectification measures be implemented properly and consistently, the Company could not effectively prevent recurrence of deficiencies as identified by the regulatory authorities during the inspection.

Reporting and Monitoring Employees' Non-Compliance

We have established internal procedures for reporting employee non-compliance to ensure that all incidents of employee non-compliance are reported to us in a timely manner. In addition, we are required to report to the CBRC material incidents of employee non-compliance. As of the Latest Practicable Date, none of our directors or senior management team members is involved in any employee non-compliance incidents.

In 2014, a criminal investigation was initiated against the general manager of an independent third party (the "Third Party Manager") who previously served as an investment advisor to some of our trusts. The head of one of our trust business departments in charge of these trusts (the "Involved Employee") was subsequently arrested for his alleged personal involvement in the case for which the Third Party Manager was investigated. We have fully cooperated with the government investigators and provided all information they requested. The Involved Employee has subsequently been released on bail. A public trial of the case against the Third Party Manager was held in 2016 and we attended the trial as audience. On December 23, 2016, the court made a judicial decision to approve withdrawal of the case by the prosecutors. Based on the information we obtained at the public trial and the resulting decision of the case, we believe that the case does not relate to any of our business, any of our trust products, any act of the Involved Employee on behalf of our Company or any of our other employees. We have also conducted internal investigations of all of our trusts for which the independent third party acted as the investment advisor and did not find any non-compliances on the part of the Company or any of these trusts, and all of these trusts have been terminated normally upon expiration of their terms. None of our other employees, officers or Directors has been investigated in connection with this case. As such, we do not expect our Company to incur

any penalty or direct financial loss in connection with this pending case, although our reputation may be adversely affected by the relevant media publications in association with this case. After the incident, we organized training programs for our employees to reaffirm and enhance their awareness of our code of ethics and other internal control policies and reminded them of their obligations to abide by all laws and regulations at all times whether within or outside the work setting. As the incident does not relate to any deficiency in our internal control procedure, we did not implement any specific internal control procedure in response to the incident. Please also refer to “Risk Factors — Risks Relating to Our Business and Industry — Our reputation may be adversely and materially affected and we may suffer other losses if we are not able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties in a timely manner”.

Incident Relating to a Former Senior Management Member

In May 2017, the People’s Procuratorate of Liangshan County in Shandong province commenced investigation against Mr. Song Chong (宋冲) (“Mr. Song”), a former vice general manager of our Company, and Mr. Song was arrested by the People’s Procuratorate of Jining City, Shandong Province in July 2017, for suspected bribery (the “Incident”). As of the Latest Practicable Date, to the best knowledge of our Company, Mr. Song’s case was still under investigation by the People’s Procuratorate of Jining City. In connection with the Incident, in May 2017, the People’s Procuratorate of Liangshan County in Shandong Province ordered our Company to freeze the beneficial rights of an individual administrative management trust with the AUM of approximately RMB34 million as of May 19, 2017 (the “Relevant Trust”) in which our Company acted as the trustee. As of the Latest Practicable Date, the Relevant Trust had an AUM of approximately RMB18 million as the People’s Procuratorate of Liangshan Country lifted the freeze for short periods of time which allowed some of the trust assets to be distributed pursuant to instructions of the trustor. Mr. Song was removed from his position as a vice general manager by our Company in July 2017.

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Our Directors are of the view that (i) the Incident, even if it is proven, is merely Mr. Song's individual acts in pursuit for a personal benefit, and neither our Company nor any of our Directors, Supervisors, other senior management or employees, is, part of such acts and (ii) the Incident will not have any material adverse effect on our business, financial condition and results of operations, based on the information currently available to our Company and having considered, among other things, the following:

- (i) as of the Latest Practicable Date and to the best knowledge of our Company, neither our Company nor any of our Directors, Supervisors, other senior management or employees has received any notification from judicial authorities or is otherwise aware of that he/she is being investigated or prosecuted by any judicial authorities, or imposed any penalty by any regulatory authorities in connection with the Incident;
- (ii) our Company has received legal advice from a special PRC legal counsel and based on such advice, our Directors believe that (i) our Company would not be held responsible for Mr. Song's alleged bribery offences under the PRC criminal laws and regulations, (ii) the incident will not have material adverse impact on our business, operation results and financial conditions, (iii) our Company has duly performed its obligations under the relevant trust contracts and its duties as a trustee and thus, the trustors, beneficiaries, investors or creditors of the Relevant Trust has no legal basis to claim any compensation from our Company acting as the trustee; and
- (iii) our PRC legal advisor, Fangda Partners, advised that based on the current facts, the CBRC would not hold our Company responsible for any administrative liability solely based on the Incident, and would not impose any administrative penalties or regulatory measures on our Company, Directors, Supervisors or other senior management solely based on the Incident.

Since the occurrence of the Incident, our Company has reviewed and implemented measures to improve our anti-corruption mechanism, risk management and internal control system. In particular, (i) we strengthened our education on professional ethics and regulatory compliance, and we required our senior management and employees to attend compulsory anti-corruption training sessions, such as seminars and educational movie screenings; (ii) we strengthened our human resource management, including enhancing business training and the management of operational procedures, and strengthening the rotation of positions, mandatory leaves and inspections on employees' daily conduct; (iii) we further standardized our project selection and review process; (iv) in addition to the existing procedures, our Company has decided to revise our Administrative Measures on Individual Trusts, Administrative Measures on Collective Trusts and Administrative Measures on Due Diligence on Collective Trusts to specifically request the trustors/counterparties to confirm whether it is related to our Company, Directors, Supervisors, senior management or employees; (v) we have engaged an internal control consultant to conduct comprehensive review of our internal control mechanism and make recommendations for improvement; (vi) we strengthened our internal rules and regulations

in relation to anti-corruption mechanism, risk management and internal controls; and (vii) we ensured and emphasized that our internal controls cover each individual project. We have been continuously reinforcing our regulatory compliance education and enhancing our risk management and internal control system in order to strictly control operational risks and moral hazards and to prevent the recurrence of similar incidents.

Regulatory Compliance of Our Trust Schemes

As advised by our PRC legal advisor, except as disclosed in “— Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”, we believe the trust schemes managed by us were in compliance with all regulatory requirements in the PRC in all material aspects during the Track Record Period based on consideration of the following factors,

- (i) The trust industry is heavily regulated in the PRC. The CBRC, PBOC and their local offices monitors the business operation of trust companies on a routine and continuous basis. We have been required to collect business and financial data of our trust business (including material information with respect to all of our trust schemes in existence such as type of trusts, terms and structure of the trusts, trustor clients and use of trust funds) and submit the data on a monthly or quarterly basis to the Shandong Office of CBRC (which then delivers it to the CBRC) during the Track Record Period. We have also reported more comprehensive information about our trust business to the Shandong Office of CBRC according to its requirements, filed detailed business and financial data through Intranet connection with the Shandong Office of CBRC on a daily basis, and submitted reports relating to trust schemes which are deemed to involve specific risk exposures in accordance with CBRC guidance to the Shandong Office of CBRC on a monthly basis during the Track Record Period. We also reported detailed information of our fund trusts operations to PBOC on a monthly basis during the Track Record Period. We have adopted the relevant reporting systems (namely, the 1104 & EAST Reporting System required by CBRC, the EAST Reporting System required by the Shandong Office of CBRC and the Fund Trusts Reporting System required by PBOC) to meet such regulatory requirements. For more details, see “— Information Technology — Information Systems — Regulatory Reporting Systems”.
- (ii) In addition to routine monitoring of our trust business operation as described above, the local offices of the CBRC and PBOC also conduct routine and ad hoc regulatory inspections on us. While such inspections have identified non-compliances of our trust schemes from time to time and the regulators have required us to take various measures to modify and improve our business practices, we have taken rectification measures in response to such requirements and reported the measures to the regulators, and except as disclosed in “— Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”, the regulators did not take any further supervisory measures or

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impose any administrative penalties on us in connection with the non-compliances they identified, which evidenced the regulators' conclusion that such non-compliances (other than those disclosed in “— Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”) were not material as to warrant any administrative penalties. For more details about these inspections and their major findings, please see “— Legal and Regulatory Proceedings — Regulatory Inspections”.

- (iii) In preparation for the Global Offering, we requested the Shandong Branch of CBRC to issue a supervisory opinion based on its routine monitoring of our trust business operations and routine and *ad hoc* regulatory inspections on us. On June 28, 2016, the Shandong Office of CBRC issued a supervisory opinion to us, which concluded that our major regulatory indicators were in compliance with the PRC laws and regulations.
- (iv) We have a risk management system in place to ensure compliance with applicable laws and regulations. Our Legal & Compliance Department is responsible for ensuring that the agreements that we enter into comply with the extensive, complex and constantly changing laws and regulations issued by various governmental authorities. In line with our internal control measures, for important agreements, such as trust contracts or loan agreements, we engage reputable Chinese law firms to provide professional assistance in preparing standard forms and reviewing individual agreements. In addition, we are required by relevant PRC regulation to obtain a legal opinion from external counsel with respect to each collective fund trust established during the Track Record Period which concluded that we were legally qualified to act as the trustee and the legal documents of each collective fund trust were in compliance with the PRC laws and regulations.

AWARDS AND RECOGNITIONS

We have received numerous awards and accolades in recognition of the quality and popularity of our products and services, among which are the following:

<u>Award/Recognition</u>	<u>Award Date</u>	<u>Awarding Institution/Authority</u>
Shandong Provincial Financial Contribution Award from 2014 to 2015	2016	People's Government of Shandong Province
Best Innovative Trust Company	2016	China Financial Value Ranking 2016 of Yicai Global, China Business Network

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Award/Recognition	Award Date	Awarding Institution/Authority
Excellence Risk Control Award	2016	Committee of National Innovation and Security Development Summit
Shandong Provincial Level Civilized Entity Award in 2013, 2014 and 2015	2014, 2015 and 2016	Shandong Spirits and Civilization Construction Committee
Best Socially Responsible Trust Company Award in 2014	2015	China Business News
Outstanding Entity for Donation and Aid for the Disabled in 2014	2015	Jinan Foundation for Disabled Person
China “Integrity Trust” Management Team Award in 2014	2015	Shanghai Securities News
China’s Most Innovative Trust Companies Award in 2014	2015	<u>STCN.com</u>
Accredited as a “Consumers’ Most Trusted Financial Brand” in 2013 and 2014	2013 and 2014	Dazhong daily
Outstanding Grassroots Entity Award for Charity Work (in the award category for provincial government supervised enterprises) in 2013	2014	Branch of Shandong Enterprises Charity
Accredited as a “Trust Company with the Greatest Regional Influence in China” in 2013	2014	<u>STCN.com</u>
China “Integrity Trust” Growth Advantage Award in 2013	2014	Shanghai Securities News
Shandong Province Financial Innovation Award in 2011 and 2013	2012 and 2014	People’s Government of Shandong Province

BUSINESS

Award/Recognition	Award Date	Awarding Institution/Authority
2012–2013 China Sunshine Private Funds Golden Cup Award for Trust Companies with the Best Risk Management Practices	2013	China Business News
“Leading China” Award for Trust Industry Players with the Greatest Growth Potential in 2012	2013	<u>JRJ.com</u>
2011–2012 China Asset Management Gold Shell Award for Trust Companies with the Highest Growth Potential	2012	21st Century Business Herald
China Sunshine Private Funds Golden Cup Award for the Trust Companies with the Best Services in 2011	2012	China Business News
The Most Popular Trust Company Award in 2011	2012	The Seventh Beijing International Finance Expo Organizing Committee
Accredited as a “Shandong Province Top 10 High Growth Financial Entity” in 2011	2012	Shandong Financial Entities Selection Committee
China Sunshine Private Funds Golden Cup Award for the Best Innovative Trust Companies in 2010	2011	China Business News
Best Financial Service Entity Award in 2009	2010	China Association of Chief Financial Officers

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The following discussion and analysis should be read in conjunction with our consolidated financial information, including the notes thereto as of and for each of the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 as well as our unaudited consolidated financial information as of and for the five months ended May 31, 2016 included in “Appendix I – Accountant’s Report”, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

Information presented in this section, in particular, in respect of the sections headed “– Net Current Assets” and “– Indebtedness,” that are not extracted or derived from the Accountant’s Report have been extracted or derived from unaudited management accounts as of and for the nine months ended September 30, 2017 (which are not included in this prospectus) or from other records.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from projections include, but are not limited to, those discussed in “Risk Factors” and “Forward-looking Statements” and elsewhere in this prospectus.

OVERVIEW

We are a comprehensive financial and wealth management service provider in China, utilizing our trust products to provide diversified financing and investment services. Following a market-oriented approach, we closely monitor changes in the economic and market conditions in China to identify market opportunities, and have timely and adeptly adjusted our development strategies to grow our business. We have two major business lines, which are the trust business and proprietary business.

Trust business is our core business. Utilizing the flexibility of trust arrangements under PRC laws, the expanded business scope under our trust license and our strong management capabilities, we have developed a broad range of trust products to satisfy the financing, investment, wealth management and succession needs of our various types of clients. We have financing trusts that focus on providing flexible financings for real estate and government infrastructure projects and various types of industrial and commercial enterprises. We have investment trusts that focus on satisfying the investment, wealth management and succession needs of our trustor clients. We also have administrative management trusts that serve as a conduit to concurrently satisfy the investment needs of our trustor clients and the financing needs of relevant counterparty clients.

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Our proprietary business focuses on allocating our proprietary assets into different asset classes and investing in businesses with strategic value to our trust business. We have made strategic long-term investments in a number of financial institutions, which helped us establish stronger business relationships with these financial institutions and created synergies for our respective businesses. We also invest our proprietary assets in a variety of financial products to maintain our liquidity, satisfy net capital requirement for the expansion of our trust business and maintain and increase the value of our proprietary assets.

During the Track Record Period, our total trust AUM decreased from RMB327.0 billion as of December 31, 2014, to RMB240.8 billion as of December 31, 2015, then increased to RMB254.6 billion as of December 31, 2016 and remained almost unchanged at 254.5 billion as of May 31, 2017. During the Track Record Period, our average actual trustee's remuneration rate (annualized) decreased from 0.41% in 2014 to 0.37% in 2015, then decreased to 0.33% in 2016 and increased to 0.45% in the five months ended May 31, 2017.

Our total operating income increased from RMB1,766.2 million in 2014 to RMB1,785.7 million in 2015, and decreased to RMB1,327.4 million in 2016, and increased from RMB377.6 million in the five months ended May 31, 2016 to RMB654.2 million in the five months ended May 31, 2017. In 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, net profit attributable to the shareholders of our Company was RMB985.5 million, RMB1,075.5 million, RMB833.0 million, RMB282.9 million and RMB399.8 million, respectively. As of December 31, 2014, 2015, 2016 and May 31, 2017, our total assets were RMB7,635.0 million, RMB8,170.8 million, RMB8,648.0 million and RMB10,052.2 million, respectively, and our total equity was RMB5,396.9 million, RMB5,997.5 million, RMB6,341.1 million and RMB6,484.5 million, respectively.

BASIS OF PREPARATION

Our financial statements have been prepared in accordance with IFRS and include applicable disclosure requirements of the Listing Rules and the Companies Ordinance.

We prepared our financial statements on the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss which are carried at fair value.

Our consolidated financial statements include the financial statements of our Company and all of the entities (including structured entities) over which we have control. The only entities we have control over are some of our trust schemes, which constitute structured entities, which means entities that have been designed so that voting rights or similar rights are not the dominant factor in deciding who controls them. Our Company and the trust schemes over which we have control are collectively referred to as the Group. We control a trust scheme when, based on the contractual terms, we are exposed, or have rights, to variable returns from our involvement with the trust scheme and have the ability

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to affect those returns through our power over the trust scheme. Trust schemes over which we have control are consolidated from the date on which control is transferred to us and are deconsolidated from the date that control ceases. Where necessary, amounts reported by consolidated trust schemes have been adjusted to conform to the policies adopted by our Company. Intra-group balances, transactions and unrealized profits on transactions among our Company and consolidated trust schemes are eliminated.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

General Economic and Financial Market Conditions

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

According to preliminary data from the National Bureau of Statistics, China's GDP increased by 6.7% from 2015 to 2016, which was a record low for the past 25 years. While Chinese economy has experienced rapid growth over the past 30 years, it has gradually entered a "new normal" stage characterized by deceleration in growth rate, economic structure optimization and upgrading, and economic growth driven by improvement in services and innovation as opposed to production and investment. Given overcapacity in the steel, cement and other manufacturing industries, the high debt ratios of local governments, and overreliance of the entire economy upon the real estate sector, the PRC government is taking measures to encourage reduction in the production capacity of the manufacturing sector, deleverage the financial industry, and control the growth of the real estate sector.

The structural transformation of the Chinese economy and other changes in financial market conditions present both challenges and opportunities for our trust business. For example, decline in the real estate and other industrial or commercial sectors in China and restrictions on local governments to incur debts may negatively affect our trust business that focus on providing financings to these sectors. Measures taken by the PRC government to address slowdown in the Chinese economy, including the launch of alternative financing channels and the expansion of banking business, may drive down financing costs and create significant downward pressure on the investment return of our trust schemes. Our clients may reduce their investment activities or financing needs during times of economic slowdown, which may reduce the demand for our 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 our counterparties. On the other hand, we may identify new business opportunities during such economic transformation and take advantages of the changes in financial market conditions and we

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

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

Regulatory Environment

Our results of operations, financial condition and prospects are affected by regulatory developments in the PRC. In particular, we believe that our ability to expand our business and broaden the scope of our product and service offerings has been, and will continue to be materially affected by changes in the policies, laws and regulations governing the trust industry in China, including the extent to which we can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC trust industry has been evolving, and the main regulatory authority for the industry, the CBRC, has been continuously monitoring the development status of this industry and issuing various regulations and policies to encourage or discourage or even prohibit certain types of trust business or practice from time to time. We will need to continuously adjust our trust business and practice to conform to these changing regulations and policies, which may have positive or negative impact on the size or profitability of our trust business. We believe the CBRC is committed to reforming the PRC trust industry in a view toward enhancing PRC trust companies' active assets management capability, enhancing their net capital, optimizing their risk management, and broadening the scope of their products and services. As our development strategies are in line with these regulatory initiatives, we believe the evolvement of the regulatory environment for the PRC trust industry will likely have a positive effect on our overall business and financial performance. For example, as the CBRC started to allow trust companies to establish dedicated subsidiaries to engage in certain businesses outside the traditional trust business, we plan to establish dedicated subsidiaries to engage in real estate investment, private equity investment, family trust and wealth management businesses to elevate our professional management and service capabilities and expand the relevant businesses. However, the CBRC may also restrict the development of certain trust business from time to time for various reasons such as when it deems the risks of certain trust business is too high, and such restrictions may have an adverse effect on some of our trust business.

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In addition, the regulatory environment of other financial industries in China may also indirectly impact our trust business. We have traditionally benefited from the expanded business scope under our trust license. However, there has been a general trend towards liberalizing the financial sectors in China and, as a result, other financial institutions may be able to offer an increasing number of products and services that are similar to ours and we may lose some of our advantages and face increased competition as a result.

Business Lines and Product Mix

We have two business segments, namely trust business and proprietary business. Our historical financial results were significantly affected by the fee and commission income from our trust business. In 2014, 2015, 2016 and for the five months ended May 31, 2016 and 2017, fee and commission income represented 72.8%, 58.9%, 62.3%, 81.8% and 72.3% of our total operating income, respectively. As a result, any material changes in our trust business, such as in terms of client development, growth strategies and regulatory requirements, may significantly affect our financial condition and results of operations. We also offer a variety of trust products. We have actively managed trusts, which generally allow us to charge relatively higher trustee's remuneration rates, and administrative management trusts, whose trustee's remuneration rates are relatively lower. Our average actual trustee's remuneration rate (annualized) for actively managed trusts was 1.23%, 1.14%, 0.90% 0.92% and 1.09% in 2014, 2015, 2016 and for the five months ended May 31, 2016 and 2017, respectively, while our average actual trustee's remuneration rate (annualized) for administrative management trusts was 0.26%, 0.23%, 0.19%, 0.18% and 0.20% in 2014, 2015, 2016 and for the five months ended May 31, 2016 and 2017, respectively. Within actively managed trusts, we have financing trusts that focus on providing financings to counterparty clients in different industries and investment trusts that focus on investing our trustor clients' assets into different asset classes. Therefore, different types of trust products will have different risk-and-return profiles and will require different level of management efforts from us, which will affect our trustee's remuneration. As a result, the overall financial performance of our trust business would be significantly affected by the relative weight of different types of trust products we provide in a particular period. We also generate interest income and investment income from our proprietary business by allocating our proprietary assets into different asset classes. The performance of our proprietary business is affected by our proprietary assets allocation plan, market condition, interest rate as well as our investment and risk management capability, and will also significantly affect our financial position and results of operation.

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We plan to continue to diversify our trust products by designing more trust products tailored to different and emerging new demands and providing more active assets management services. As a result, our future results of operations and financial condition could be significantly affected by our ability to design, develop and manage more trust products that are attractive to our counterparty clients and trustor clients and allow us to maintain or increase our trustee's remuneration rates. We also seek to further improve our proprietary business by optimizing our assets allocation and making more long-term investments in financial institutions with strategic value to our core trust business, and our success in this regard is also expected to significantly affect our future results of operations and financial condition.

Competition

We face competition from other trust companies in China. As of the Latest Practicable Date, there were 68 trust companies in China, including us. We compete 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. Price competition has led to an industry-wide trend of decreasing trustee's remuneration rate, which has historically accounted for a majority of our operating income. We will continue to monitor the pricing of our products and services against our competitors and adjust our trustee's remuneration rates and other fee structures to enhance our competitive position while maintaining our profitability.

We also face competition from various other financial institutions. For our financing trusts, we compete with other potential financing sources, such as commercial banks and investment banks, for our counterparty clients and the intensity of competition from other financing sources will affect the number and quality of our counterparty clients as well as the level of interest we can charge on financings to our counterparty clients and thereby affect our operating income and profitability. For our investment trusts, we compete with various other financial institutions that provide assets and wealth management services. Given the relaxation of regulation of various financial sectors, various types of financial institutions such as commercial banks, securities firms, fund management companies, private equity funds and private banks have started to offer assets and wealth management services. As such, our ability to grow our investment trust business depends on our ability to effectively compete with these other financial institutions through offering a variety of trust products that are tailored to the different needs of our trustor clients and offer relatively high and stable investment returns.

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Interest Rate Environment

Our 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. Since January 2014, PBOC has adjusted the lending and deposit interest rates many times, and the one-year RMB bench mark lending rate was lowered from 6.00% at the beginning of 2014 to 4.35% as of the Latest Practicable Date and the one-year RMB bench mark deposit interest rate was lowered from 3.00% at the beginning of 2014 to 1.50% as of the Latest Practicable Date. Our 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 our counterparty clients from different financing sources and thereby affect their willingness to raise financings through our trust products;
- Changes in deposit interest rates may affect the comparative investment returns to our trustor clients from different investment options and thereby affect their willingness to invest in our trust products;
- Changes in lending rates may affect the amount of interest income generated from loans provided to our counterparty clients by our trust schemes or ourselves using our proprietary assets and thereby affect the amount of our trustee's remuneration as well as our interest income from consolidated trust schemes and our proprietary loans; and
- Changes in interest rates may also affect the value of various types of financial assets held by our trust schemes or ourselves 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 NAV of the trust schemes holding such securities or our proprietary business.

AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes

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

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As of December 31, 2014, 2015, 2016 and May 31, 2017, we consolidated 33, 35, 36 and 36 of the trust schemes under our management, respectively, and the total trust assets of these consolidated trust schemes were RMB3,367.0 million, RMB3,441.8 million, RMB5,209.9 million and RMB6,000.5 million, respectively. The following table sets forth changes in the number of our consolidated trust schemes during the Track Record Period.

	Year ended December 31,			Five months ended May 31,
	2014	2015	2016	2017
Beginning:	25	33	35	36
Newly consolidated trust schemes	23	17	21	6
Deconsolidated trust schemes	15	15	20	6
Ending:	33	35	36	36

The consolidation of these trust schemes significantly increased our total assets during the Track Record Period due to the inclusion of assets of these trust schemes (consisting of loans to customers, financial assets at FVTPL, available-for-sale financial assets, investments accounted for using the equity method and other assets) in our total assets. The following table illustrates the impact on our total assets resulting from the consolidation of these trust schemes during the Track Record Period,

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in million)			
Total assets of our Company ·	5,874	6,586	7,102	7,267
Total assets of consolidated trust schemes	3,367	3,442	5,210	6,001
Consolidation adjustment ···	(1,606)	(1,857)	(3,669)	(3,216)
Total assets of our Group ··	7,635	8,171	8,648	10,052

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The following table sets forth the breakdown of total assets of our consolidated trust schemes during the Track Record Period.

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in million)			
Underlying assets of consolidated trust schemes:				
Cash and cash equivalents	133	144	113	84
Financial assets at fair value through profit or loss	120	149	231	269
Loans to customers	2,976	2,782	4,048	4,742
Available-for-sale financial assets	–	150	–	–
Investments accounted for using the equity method	19	54	721	741
Other assets – artwork investment	71	88	72	72
Others	48	75	25	93
Total assets of consolidated trust schemes:	3,367	3,442	5,210	6,001

Increase in total assets of consolidated trust schemes throughout the Track Record Period was due to the increased average size and number of consolidated trust schemes which results in the increase in loans to customers, financial assets at fair value through profit or loss, and investments accounted for using the equity method.

However, the impact on our total assets largely corresponded to significant increase in our total liabilities due to the inclusion of liabilities of these trust schemes (presented as “Net assets attributable to other beneficiaries of consolidated structured entities” in our consolidated balance sheet) in our total liabilities. The following table illustrates the impact on our total liability resulting from the consolidation of these trust schemes during the Track Record Period.

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	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in million)			
Total liability of our Company	484	644	766	830
Total liability of consolidated trust schemes	3,367	3,442	5,210	6,001
Consolidation adjustment	(1,613)	(1,913)	(3,669)	(3,263)
Total liability of our Group	2,238	2,173	2,307	3,568

Increase in total liability of consolidated trust schemes throughout the Track Record Period was due to the increased average size and number of consolidated trust schemes.

As a result of the above, the impact on our net assets or equity from consolidation of these trust schemes was thus less significant. The following table illustrates the impact on our total equity resulting from the consolidation of these trust schemes during the Track Record Period,

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in million)			
Total equity of our Company	5,390	5,942	6,336	6,437
Consolidation adjustment	7	56	5	47
Total equity of our Group	5,397	5,998	6,341	6,484

Nevertheless, our overall asset quality was significantly affected by the inclusion of loans to customers granted by our consolidated trust schemes as part of such loans were subsequently impaired. The following table illustrates the impact on our total loans to customers resulting from the consolidation of these trust schemes during the Track Record Period,

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in million)			
Carrying amount of loans to customers of our Company	139	294	–	–
Carrying amount of loans to customers of consolidated trust schemes	2,976	2,782	4,048	4,742
Total loans to customers granted by our Group	3,115	3,076	4,048	4,742

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The consolidation of these trust schemes also significantly affected our results of operations. For example, all trustee's remunerations we were entitled to from these consolidated trust schemes were eliminated as a result of consolidation and thereby reduced our fee and commission income. In addition, the consolidation of these trust schemes increased our interests income due to inclusion of interest income generated from loans granted by our consolidated trust schemes. It also increased our interest expense which represents interest income of our 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 net profit attributable to our Company's shareholders has been less significant. The following table illustrates the impact on net profit attributable to our Company's shareholders resulting from the consolidation of these trust schemes during the Track Record Period.

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in million)				
Net profit attributable to the Company's shareholders before consolidation of trust schemes	989	1,028	884	303	358
Impact of consolidation of trust schemes	(3)	48	(51)	(20)	42
Net profit attributable to the Company's shareholders after consolidation of trust schemes	986	1,076	833	283	400

Determining whether a trust scheme should be consolidated involves substantial subjective judgment by our management. We assess whether a trust scheme should be consolidated based on the contractual terms as to whether we are exposed to, or have rights to, variable returns from our involvement with the trust and have the ability to affect those returns through our power to direct the activities of the trust. Contractual terms of those consolidated trust schemes usually have some or all of the following features:

- *Whether we have power over the trust scheme, and we can excise the rights that give us the ability to direct the relevant activities of the trust scheme.* Usually we have such power when we act as the trustee of those actively managed trusts, as the contractual terms in the trust contracts allow us to determine the selection of assets or projects in which the trust assets will be invested in, to perform due diligence on the assets or projects as well as the counterparties that hold the

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assets or projects, to determine the pricing strategy, and to be actively involved in the ongoing management and disposition of the trust assets;

- *Whether we are exposed, or have rights, to variable returns from our involvement as the trustee when our returns from our 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 we have proprietary funds invested in the trust scheme, or as floating trustee's remuneration as are calculated according the relevant terms in the trust contracts; and
- *Whether we control the trust scheme that we not only have power over the trust scheme and exposure or rights to variable returns from our involvement, but also have the ability to use our power to affect the returns from the trust scheme.* As we are responsible for the planning, pricing, setting the beneficial rights, management and operations of those actively managed trust schemes as the trustee, we may have the ability to significantly affect our returns from such trust schemes. For example, where we subscribe a significant portion of a trust scheme, or in case we decide to provide liquidity support to a troubled trust, we intentionally use our rights as the trustee and ability of investing using proprietary funds, to associate ourselves with the variable returns from such trust schemes.

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

Given our limited decision-making authority over administrative management trusts and because we have not made any proprietary investment in our administrative management trusts during the Track Record Period, we have not been required to consolidate any administrative management trusts during the Track Record Period.

With respect to our actively managed trusts, we are more likely to be required to consolidate those in which we have made proprietary investments and therefore may be subject to substantial variable return resulting from such investments. The contract terms of our consolidated actively managed trust schemes with respect to our power and authority do not differ materially from those of our unconsolidated actively managed trusts. The amount of proprietary investment we have 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 we were, and will be, required to consolidate such trust. Variable return may also be affected by allocation and distribution of trust beneficiaries pursuant to the terms and conditions of respective trust contract, when we determine whether a trust scheme should be consolidated or not.

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During the Track Record Period, we have not consolidated any administrative management trust schemes and have not consolidated any actively managed trust schemes in which we did not make any proprietary investments.

During the Track Record Period, we have consolidated certain trusts that became troubled later during the relevant period in which we made proprietary investments and with respect to which we are required to consolidate pursuant to the IFRSs. We have also consolidated all troubled trusts to which we provided liquidity support (or, in lieu thereof, trusts established to acquire from the troubled trusts the beneficial rights to the troubled trust's assets) because, among various other factors, all such troubled trusts are actively managed trusts and the liquidity supports we provided resulted in substantial amount of our proprietary investments in these trusts which lead to substantial variable returns to us from these trusts. If we decide to provide liquidity support to any troubled trust in the future, we are likely to be required to consolidate such troubled trust as well. We consolidated a total of 5, 12, 3 and 5 trusts that remained troubled as of December 31, 2014, 2015 and 2016 and May 31, 2017, respectively, and the aggregate AUM of such troubled trusts amounted to RMB331.9 million, RMB971.1 million, RMB264.8 million and RMB420.8 million, respectively, as of December 31, 2014, 2015 and 2016 and May 31, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial information in accordance with IFRS. The Accountant's Report in Appendix I to this prospectus sets forth these significant accounting policies in Note 2, which are important for an understanding of our financial condition and results of operations.

Certain of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in Note 3 of Accountant's Report in Appendix I to this prospectus. Our estimates and associated assumptions are based on historical experience and other factors including reasonable expectations of future events. The critical accounting estimates and key assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis.

Our management has identified below the accounting policies, estimates and judgments that they believe are the most critical to the preparation of our financial statements. We are not aware of any event or circumstance that, as of the Latest Practicable Date, would cause us to adjust our accounting estimates and assumptions, which we have made and relied on during the Track Record Period.

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Control over Trust Schemes

Where we act as trustee and are engaged in the active management of our trust schemes, we make judgment on whether we are the principal or an agent to assess whether we control the trust schemes and should consolidate them. When performing this assessment, we consider several factors including, among other things, the scope of our decision-making authority over the trust schemes, the rights held by other parties, the remuneration to which we are entitled in accordance with the related agreements for the assets management services and our exposure to variability of returns from other interests that we hold in the trust schemes. We perform re-assessment when the factors change.

Impairment Allowances for Loans to Customers

We regularly review our loan portfolios to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, we make judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio of loans. The impairment loss for loans to customers that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans to customers are collectively assessed for impairment, we use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

We take into account the collaterals, together with other factors such as business prospect and financial position of counterparties, when estimating the impairment allowance. We determine and assess fair value of collateral upon the establishment of trusts but we typically do not revalue the collaterals subsequently as the prices of land use rights and property (the type of collaterals which we consider more relevant in estimating impairment allowance) have been generally on an upward trend. For other types of collaterals such as machinery and inventory, we usually do not revalue them subsequently either as these are less relevant in estimating impairment allowance, compared to other factors such as business prospect and financial position of counterparties. While we may require counterparties to pledge equity interests in themselves or their affiliates as collaterals, such request is to ensure greater control over our counterparties whenever necessary and we typically do not take such equity interests into consideration when estimating impairment allowance as the value of such equity interests at each reporting date normally cannot be ascertained with reasonable accuracy. In accordance with IFRSs,

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we do not account for any collaterals (in which we only have security interest) as our own assets nor include them in our balance sheet.

Fair Value of Financial Instruments

We use valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of us and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Income Taxes

We are subject to income taxes and significant judgment is required in determining provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Taxation matters are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Total Operating Income

Our total operating income consists of (i) fee and commission income, (ii) interest income, (iii) net changes in fair value on financial assets at fair value through profit or loss, (iv) investment income and (v) other operating income.

Fee and Commission Income

Fee and commission income is the most important source of our operating income and accounted for 72.8%, 58.9%, 62.3%, 81.8% and 72.3% of our total operating income in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Our fee and commission income consists of trustee's remuneration and other fee and commission income. We earn trustee's remuneration from unconsolidated trust schemes managed by us, which is based on the roles we take on in each trust scheme, usually as a

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percentage of the trust AUM. Pursuant to the terms of trust contract, as long as we fulfill our duties stated in trust contract in our capacity as trustee, we are entitled to receive the remuneration as specified in the trust contract. We receive a fixed portion remuneration from the trust assets, which is the major source of our income from our trust business. We may also be entitled to a floating remuneration being the residual value of assets of the trust scheme after the settlement of all expenses incurred under the trust scheme and completion of distributions to all trust beneficiaries according to trust contract or when we act as the investment advisor.

Our other fee and commission income mainly consists of financing advisory fees we charge some of our counterparty clients for the provision of ancillary financial advisory services.

Interest Income

Interest income is another major source of our operating income and accounted for 21.7%, 25.8%, 34.3%, 37.6% and 28.1% of our total operating income in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Our interest income includes (i) interest income from cash and bank balance, (ii) interest income from loans to customers, (iii) interest income from investments classified as loans and receivables, (iv) interest income from financial assets purchased under agreements to resell, and (v) interest received in respect of contribution to the Trust Industry Protection Fund which we paid on behalf of counterparty clients of our financing trusts.

We generate interest income primarily from loans to corporate customers, the substantial majority of which were provided by our consolidated trust schemes and the remainder were provided by our Company using our proprietary assets. We also generate interest income from our proprietary cash and bank balance and the cash and bank balance of our consolidated trust schemes. In addition, we generate interest income from investments classified as loans and receivables, which consist of our proprietary investments in our unconsolidated trust schemes, and the underlying assets of these trust schemes are loans to customers. We also enter into short-term reverse repurchase agreements of treasury notes under which we generate interest income through purchasing treasury notes from the counterparty and agreeing to resell such notes to the counterparty at a predetermined price on the maturity date of the reverse repurchase agreement. In addition, while counterparty clients of our financing trusts should make contributions to the Trust Industry Protection Fund, we may agree to pay such contributions on behalf of our counterparty clients and recover such funds from the Trust Industry Protection Fund upon liquidation of the relevant financing trusts and therefore we started to recognize interest income in connection with such arrangement in 2016. For additional information, see “— Selected Consolidated Financial Positions — Assets — Contribution to Trust Industry Protection Fund due from Counterparty Clients”.

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Net Changes in Fair Value on Financial Assets at Fair Value through Profit or Loss

In accordance with IFRSs, our financial assets at FVTPL are stated at their fair value and changes in fair value arising from re-measurement of our financial assets at FVTPL are recognized as our operating income or loss in the period in which they arise. Net changes in fair value on financial assets at FVTPL depend on the amount of such financial assets we hold during the period as well as the financial performance of these assets, which is significantly affected by macroeconomic and capital markets conditions in China during the period. Net changes in fair value on financial assets at FVTPL contributed to 2.7% and 3.1% of our total operating income in 2014 and 2015, respectively. However, it also caused a reduction in our total operating income in 2016 and in the five months ended May 31, 2016 and 2017 that equaled to 6.1%, 28.1% and 1.3%, respectively, of our total operating income in such periods.

Investment Income

Our investment income accounted for 2.8%, 12.1%, 6.3%, 8.6% and 0.7% of our total operating income in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Our investment income mainly includes (i) net realized gains or losses from financial assets at FVTPL, (ii) net realized gains or losses from our available-for-sale financial assets and (iii) dividends income from available-for-sale equity investments.

All of our financial assets at FVTPL are held by our Company and consolidated trust schemes, which include our investments in shares of listed companies and mutual funds. When we dispose such assets, we realize gains or losses from the disposal, which are included in our investment income for the period.

The substantial majority of our available-for-sale financial assets are held by our Company as our proprietary assets, which include our equity investments in listed and non-listed companies, mutual funds, asset management products and trust schemes as well as our subscription to the Trust Industry Protection Fund. When we dispose such assets, we realize gains or losses from the disposal, which are included in our investment income for the period. In addition, we generate investment income from dividends declared by companies in which we hold equity investments and classify as available-for-sale financial assets.

Other Operating Income

Our other operating income mainly include government grants and refunds and foreign exchange gain or loss. The government grants and refunds we received during the Track Record Period were mainly from the Shandong Provincial Bureau of Finance for rewarding our contribution to the development of local economy or local tax bureau for handling individual income tax withholding with respect to our employees. As some of our

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cash balance has been held in U.S. dollars due to capital contribution in U.S. dollars from a shareholder in our history, we recognize foreign exchange gain or loss as a result of fluctuation of the exchange rate between Renminbi and U.S. dollars. In addition, in 2016, we recognized other operating income due to gain from disposal of our interest in the construction projects to a government related entity and tax refund relating to our purchase of part of the office building that has already been used as our headquarters. Our other operating income accounted for less than 0.5% of our total operating income during the Track Record Period except in 2016 due to the reason mentioned above.

Total Operating Expenses

Our operating expenses primarily include (i) interest expense, (ii) staff costs, (iii) operating lease payments, (iv) depreciation and amortization, (v) change in net assets attributable to other beneficiaries of consolidated structured entities, (vi) business tax and surcharges, (vii) impairment losses on financial assets and (viii) other operating expenses.

Interest Expenses

Our interest expenses include (i) interest accrued on borrowings from China Trust Protection Fund Co., Ltd., (ii) interest accrued on inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries). During the Track Record Period, our interest expenses accounted for 21.7%, 17.3%, 22.7%, 7.0% and 24.1% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries) constituted the substantial majority of our interest expenses during the Track Record Period. As we started to utilize borrowings from China Trust Protection Fund Co., Ltd. and short-term borrowings from the inter-bank market, we incurred related interest expenses in 2016 and the five months ended May 31, 2017.

Staff Costs

Staff costs are a major component of our operating expenses and accounted for 17.7%, 18.8%, 41.6%, 63.9% and 32.1% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

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Our staff costs include salaries and bonuses, pension costs, housing funds, labor union fee, staff education expenses and other social security and benefit costs of all of our directors, supervisors, management and other employees. Our staff costs are mainly affected by the number of our employees and the level and average salary and bonus of our employees. Since the bonuses for our employees are tied to trust remuneration collected from our trust schemes in the relevant period, our staff costs are affected by the amount of trust remuneration we collected during the period.

Operating Lease Payments

Our operating lease payments represent rental costs for office spaces leased for our business use in various cities in the PRC. As we do not require expansive physical space for the operation of our business, operating lease payments accounted for only 1.5%, 1.4%, 2.8%, 4.3% and 2.1% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Depreciation and Amortization

Our depreciation and amortization expenses represent depreciation of our leasehold improvements, office equipment and other long-term assets and amortization of intangible assets which consist mainly of various software we acquired from third parties. As we do not have substantial amount of fixed and intangible assets, our depreciation and amortization expenses accounted for only 0.5% and 0.5% of our total operating expenses in 2014 and 2015, respectively, and in 2016, our depreciation and amortization expenses accounted for 1.5% of our total operating expenses due to the increase in fixed assets as we purchased one office building in 2016. In the five months ended May 31, 2016 and 2017, our depreciation and amortization expenses accounted for 1.9% and 1.4% of our total operating expenses.

Change in Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities

While income, gain and loss from investments made by our consolidated investment trust schemes are included in our operating income as a result of consolidation, some of such income, gain and loss (represented by change in net assets of such consolidated structured entities) are expected to be distributed to third-party beneficiaries of such consolidated trust schemes according to the relevant trust contracts and are recorded as change in net assets attributable to other beneficiaries of consolidated structured entities in our consolidated income statements. Change in net assets attributable to other beneficiaries of consolidated structured entities had minimal impact on our total operation expenses in 2014, 2015 and 2016. In the five months ended May 31, 2016 and 2017, changes in net assets attributable to other beneficiaries of consolidated structured entities caused a reduction in our total operating expenses that equals to 69.6% and 1.5% of our total operating expenses during the respective period.

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Business Tax and Surcharges

During the Track Record Period before May 1, 2016, we were subject to business tax at the tax rate of 5%. Starting from May 1, 2016, value added tax (“VAT”) replaced business tax for financial service industry in China and, as a result, we ceased paying business tax and started paying VAT on taxable value added amount at the tax rate of 6%, and our income subject to VAT are recorded net of the VAT payable. In addition, we have been required to pay urban maintenance and construction tax at the rate of 7% of our VAT or business tax, as applicable, and educational surcharge at the rate of 3% of our VAT or business tax, as applicable. Business tax and surcharges have also been a major component of our operating expenses during the Track Record Period and accounted for 14.9%, 14.1%, 6.3%, 29.4% and 1.9% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Impairment Losses on Financial Assets

In accordance with IFRS, we assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets (other than financial assets at FVTPL) is impaired and will recognize impairment losses if such assets are impaired. During the Track Record Period, we recognized impairment losses on loans to customers, investments classified as loans and receivables, and available-for-sale equity instruments. We did not recognize any impairment losses on our other financial assets.

We performed both collective and individual assessment on impairment on loans to customers for the Track Record Period. We perform collective assessments based on historical loss experience in similar portfolios under current economic condition with reference to industry practice and perform individual assessments if there is objective evidence of impairment of any particular loans. All of the individually impaired loans recorded on our consolidated financial statement during the Track Record Period were granted by our trust schemes to which we provided liquidity support or in which we made proprietary investment and subsequently consolidated into our financial statements. Under PRC laws and regulations, we have no contractual obligation to provide any liquidity support to the impaired loans granted by the trust schemes or make any compensation to the beneficiaries. See “Risk Management — Risk Management In Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management”.

Investments classified as loans and receivables refer to our investments in certain unconsolidated trust schemes the underlying assets of which are loans to customers. During the Track Record Period, there was no investment classified as loans and receivables that was individually identified as impaired and therefore we performed only collective assessment on these assets.

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While we had a variety of available-for-sale financial assets during the Track Record Period, we identified impairment on certain equity instruments that are classified as available-for-sale financial assets only and therefore recognized impairment losses on such available-for-sale equity instrument.

Impairment losses on financial assets have been a major component of our operating expenses during the Track Record Period and accounted for 32.4%, 40.8%, 10.4%, 36.4% and 32.9% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Other Operating Expenses

Our other operating expenses mainly include general and administrative expenses and financial advisory fees to third parties. Our general and administrative expenses mainly include professional fees, advertising expenses, travel expenses and business entertainment expenses. We may also incur from time to time financial advisories fees payable to third-party financial institutions who help us design and promote some of our trust products. These other operating expenses accounted for 11.5%, 6.9%, 14.7%, 26.7% and 7.0% of our total operating expenses in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Share of Profit of Investments Accounted for Using the Equity Method

We have made equity investments in various companies in the financial services industries in the PRC. In addition, some of our consolidated trust schemes held equity investments in companies from different industries in the PRC. When we or our consolidated trust schemes have significant influence but not control over an investee company, we treat such investee company as an associate and we account for such investments in associates using the equity method of accounting. Under the equity method, we recognize our share of the profit or loss of the investee companies after we made the investments. As such, the amount of our share of profit of investments accounted for using the equity method for a particular period depends on the number of associates we had during the period, the profit or loss of each such associate and the percentages of our equity interests in such associates. Share of profit of investments accounted for using the equity method contributed to 7.4%, 13.0%, 12.8%, 15.5% and 12.1% of our operating profit before income tax in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively.

Income Tax Expense

Our Company is subject to enterprise income tax in China at the rate of 25% of our taxable income as determined in accordance with the relevant PRC income tax rules and regulations.

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Our effective income tax rate, defined as our income tax expense divided by our operating profit before income tax, was 23.3%, 20.1%, 22.7%, 20.1% and 20.1% in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017, respectively. As our share of profit of investments accounted for using the equity method are not subject to enterprise income tax, our effective tax rate was below the statutory rate of 25% during the Track Record Period.

As of the Latest Practicable Date and during the Track Record Period, we fulfilled all our tax obligations and did not have any unresolved tax disputes.

Impact of the Revised IFRS 9 “Financial Instruments”

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 — Financial Instruments: Recognition and Measurement.

The major differences between IFRS 9 and IAS 39 are the measurement categories and the approaches for classifying financial assets. The classification of financial assets under IFRS 9 will require us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. For financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income” under IFRS 9, we will be required to apply a new expected loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognizing impairment losses. In particular, calculation of impairment of financial instruments on an expected impairment loss basis will result in an earlier recognition of, and may result in an increase in, impairment allowances. Further, the available-for-sale equity investments under our current reporting are presumably to be reclassified to financial assets at FVTPL under IFRS 9 except for limited circumstances where we may consider to make the “fair value through other comprehensive income” designation. For details about the differences between IFRS 9 and IAS 39, see Note 2.1(5) to our historical financial information set forth in “Appendix I — Accountant’s Report”.

Given IFRS 9 will change the way we classifies and measures our financial assets, initial adoption of IFRS 9 by us on January 1, 2018 would significantly affect our operating results and financial position. In particular, calculation of impairment of financial instruments on an expected credit loss basis may result in an increase in impairment allowance. We are assessing the potential impact on our financial statements resulting from the application of IFRS 9. We have not completed our assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on our operating results and financial position have not been quantified.

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Set forth below are the timetables of our staff training, internal control policy updates and assessment of financial in order for us to achieve a smooth transition to IFRS 9 on January 1, 2018.

- ***Training Programs***

We have arranged trainings for our staff. Staff from the Risk Control Department, Planning & Finance Department and other related departments are required to attend trainings.

- ***Assessment of Possible Impacts on Our Operating Results and Financial Position***

We expect to complete the assessment of possible impacts on our operating results and financial position in the year of 2017.

- ***Internal Procedures and Policies***

We expect to complete the update of our internal control procedures and policies related to classification, measurement and impairment of financial instruments in the year of 2017.

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RESULTS OF OPERATIONS

The following table summarizes our results of operations for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(unaudited)				
	(RMB in thousands)				
Fee and commission income	1,285,278	1,052,233	827,540	308,897	472,689
Interest income	383,556	460,615	455,226	142,093	183,871
Net changes in fair value on financial assets at fair value through profit or loss	47,981	55,527	(81,046)	(106,128)	(8,322)
Investment income	48,820	215,838	84,080	32,522	4,619
Other operating income	542	1,489	41,581	180	1,328
Total operating income	1,766,177	1,785,702	1,327,381	377,564	654,185
Interest expenses	(124,866)	(106,441)	(88,097)	(5,445)	(51,607)
Staff costs (including directors and supervisors' emoluments)	(101,739)	(115,742)	(161,751)	(49,996)	(68,588)
Operating lease payments	(8,819)	(8,794)	(10,793)	(3,358)	(4,434)
Depreciation and amortization	(2,852)	(3,265)	(5,684)	(1,512)	(3,047)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,993	(18)	1,316	54,455	3,276
Business tax and surcharges	(85,760)	(86,922)	(24,642)	(23,012)	(4,140)
Auditor's remuneration	(230)	(278)	(1,100)	–	–
Other operating expenses	(66,349)	(42,717)	(57,232)	(20,934)	(15,009)
Impairment losses on financial assets	(186,654)	(251,048)	(40,518)	(28,482)	(70,409)
Total operating expenses	(575,276)	(615,225)	(388,501)	(78,284)	(213,958)
Share of profit of investments accounted for using the equity method	94,605	175,336	138,248	54,910	60,471
Operating profit before income tax	1,285,506	1,345,813	1,077,128	354,190	500,698
Income tax expense	(299,998)	(270,303)	(244,099)	(71,332)	(100,854)
Net profit attributable to shareholders of the Company	985,508	1,075,510	833,029	282,858	399,844

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The following discussion compares the major components of our results of operations in 2014, 2015, 2016 and the five months ended May 31, 2016 and 2017.

Total Operating Income

Fee and Commission Income

The following table summarizes the breakdown of our fee and commission income for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Fee and commission income:					
Trustee's remuneration					
– Fixed portion	1,192,430	945,093	750,666	248,486	421,338
– Floating portion	78,921	100,141	74,387	59,716	48,049
Subtotal	<u>1,271,351</u>	<u>1,045,234</u>	<u>825,053</u>	<u>308,202</u>	<u>469,387</u>
Others	13,927	6,999	2,487	695	3,302
Total	<u>1,285,278</u>	<u>1,052,233</u>	<u>827,540</u>	<u>308,897</u>	<u>472,689</u>

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our fee and commission income increased by 53.0% from RMB308.9 million in the five months ended May 31, 2016 to RMB472.7 million in the five months ended May 31, 2017, primarily due to an increase in our trustee's remuneration, which was caused by increase in our average trust AUM primarily due to increase in AUM of our collective trusts. Our average trust AUM increased by 4.6% from RMB243.4 billion in the five months ended May 31, 2016 to RMB254.6 billion in the five months ended May 31, 2017. Our average actual trustee's remuneration rate (annualized) increased from 0.30% in the five months ended May 31, 2016 to 0.45% in the five months ended May 31, 2017. The increase of our average actual trustee's remuneration rate (annualized) was mainly due to increase in the volume of our actively managed trusts.

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Comparisons between 2016 and 2015

Our fee and commission income decreased by 21.4% from RMB1,052.2 million in 2015 to RMB827.5 million in 2016 primarily due to decrease in our trustee's remuneration, which was primarily due to decrease in our average trust AUM and, to a lesser extent, caused by decrease in our average trustee's remuneration rate. Our average trust AUM decreased by 12.8% from RMB283.9 billion in 2015 to RMB247.7 billion in 2016. Our average actual trustee's remuneration rate (annualized) decreased from 0.37% in 2015 to 0.33% in 2016. We reduced our trustee's remuneration rates for most of our newly launched trust products in response to decrease in expected returns to many of our trust schemes as a result of the slowdown of the economic growth in China and decrease in financing costs as a result of drop in PBOC's benchmark lending rate, as well as increased competition for high-quality investment projects and competition for large institutional and HNWIs clients among various financial institutions and other financing sources in China.

Comparison between 2015 and 2014

Our fee and commission income decreased by 18.1% from RMB1,285.3 million in 2014 to RMB1,052.2 million in 2015 primarily due to decrease in our trustee's remuneration, which was primarily caused by decrease in our average trust AUM and, to a lesser extent, caused by decrease in our average actual trustee's remuneration rate (annualized).

Our average trust AUM decreased by 9.0% from RMB312.0 billion in 2014 to RMB283.9 billion in 2015 primarily due to decrease in AUM of our administrative management trusts and to a lesser extent due to decrease in AUM of our actively managed trusts. Average trust AUM of our administrative management trusts decreased by 9.0% from RMB262.4 billion in 2014 to RMB238.8 billion in 2015 primarily because we shifted our focus to enhancing the quality of our growth and reduced the overall size of our administrative management trusts that could only support very low trustee's remuneration rates. Average trust AUM of our actively managed trusts decreased by 8.9% from RMB49.5 billion in 2014 to RMB45.1 billion in 2015 primarily due to decrease in the size of our financing trusts as we reduced the overall size of our government and infrastructure trusts and industrial and commercial enterprises trusts due to slowdown of the economic growth in China and increased risks of government infrastructure projects and financings to industrial and commercial enterprises. While the overall size of our investment trusts remained relatively stable from 2014 to 2015, there was a shift from indirect investment trusts to securities investment trusts as a result of increased interests among investors in investing in the Chinese securities markets in 2015.

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Our average actual trustee's remuneration rate (annualized) decreased from 0.41% in 2014 to 0.37% in 2015, primarily because we reduced our trustee's remuneration rates for most of our newly launched trust products in response to decrease in expected returns to many of our trust schemes as a result of the slowdown of the economic growth in China and decrease in financing costs as a result of drop in PBOC's benchmark lending rate, as well as increased competition for high-quality investment projects and competition for large institutional and HNWI clients among various financial institutions and other financing sources in China.

Interest Income

The following table summarizes the breakdown of our interest income for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Interest income from:					
Cash and bank					
balance	37,222	4,138	4,735	1,040	656
Loans to customers	314,797	416,550	413,971	131,777	163,235
Investments classified as loans and receivables	5,200	21,313	16,809	2,455	8,620
Financial assets purchased under agreements to resell .	26,337	18,614	14,602	6,821	10,313
Trust Industry Protection Fund .	–	–	5,109	–	1,047
Total	<u>383,556</u>	<u>460,615</u>	<u>455,226</u>	<u>142,093</u>	<u>183,871</u>
Including: Interest income from impaired financial assets	<u>2,303</u>	<u>46,155</u>	<u>94,511</u>	<u>1,800</u>	<u>7,634</u>

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Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our interest income increased by 29.4% from RMB142.1 million in the five months ended May 31, 2016 to RMB183.9 million in the five months ended May 31, 2017 primarily due to the following factors:

- Our interest income from loans to customers increased by 23.9% from RMB131.8 million in the five months ended May 31, 2016 to RMB163.2 million in the five months ended May 31, 2017 primarily due to an increase in average balance of loans granted by our consolidated trust schemes from the five months ended May 31, 2016 to the five months ended May 31, 2017 as a result of increase in the aggregate size of such consolidated trust schemes.
- Our interest income from investments classified as loans and receivables increased by 251.1% from RMB2.5 million in the five months ended May 31, 2016 to RMB8.6 million in the five months ended May 31, 2017 primarily due to an increase in the average balance of such loans as a result of increase in the aggregate size of our investments in our unconsolidated trust schemes the underlying assets of which are loans to customers.
- Our interest income from financial assets purchased under agreements to resell increased by 51.2% from RMB6.8 million in the five months ended May 31, 2016 to RMB10.3 million in the five months ended May 31, 2017 primarily due to the increase in average interest rate we charged for such financial assets.

Comparisons between 2016 and 2015

Our interest income decreased by 1.2% from RMB460.6 million in 2015 to RMB455.2 million in 2016 primarily due to the following factors:

- Our interest income from loans to customers decreased by 0.6% from RMB416.6 million in 2015 to RMB414.0 million in 2016 primarily due to drop in average interest rate charged by our consolidated trust schemes for their loans granted to counterparty clients. The drop in average interest rate was partially due to drop in PBOC's benchmark interest rate for loans. Since beginning of 2015, PBOC lowered its one-year benchmark interest rate for loans five times from 5.60% at the beginning of 2015 to 4.35% since October 24, 2015. The drop in average interest rate was also due to shifting of our trust schemes' preference towards safer projects with lower risk profiles given the deceleration in Chinese economy's growth rate in 2015. In addition, increased competition for high-quality, low-risk projects from other financial institutions and other financing sources also drove down the market interest rate on financings for such projects.

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- Our interest income from investments classified as loans and receivables decreased by 21.1% from RMB21.3 million in 2015 to RMB16.8 million in 2016 primarily due to drop in average interest rate charged by our unconsolidated trust schemes in which we made proprietary investment and the underlying assets of which were loans to customers. Reasons for drop in average interest rate charged by these unconsolidated trust schemes were similar to those described above for drop in average interest rate charged by our consolidated trust schemes.
- Our interest income from financial assets purchased under agreements to resell decreased by 21.5% from RMB18.6 million in 2015 to RMB14.6 million in 2016 primarily because we allocated more of our proprietary assets into such financial assets in 2015 as compared with 2016.

Comparison between 2015 and 2014

Our interest income increased by 20.1% from RMB383.6 million in 2014 to RMB460.6 million in 2015 primarily due to the following factors:

- Our interest income from loans to customers increased by 32.3% from RMB314.8 million in 2014 to RMB416.6 million in 2015 primarily due to the successful collection of interest on an impaired loan in 2015 which resulted in RMB46.0 million of interest income recognized during the period and increase in average balance of loans granted by our consolidated trust schemes from 2014 to 2015 as a result of increase in the aggregate size of such consolidated trust schemes.
- Our interest income from investments classified as loans and receivables increased by RMB16.1 million from 2014 to 2015, primarily due to increase in the average balance of such loans as a result of increase in the aggregate size of our investments in our unconsolidated trust schemes the underlying assets of which are loans to customers.

The increase in our interest income from 2014 to 2015 was partially offset by the following factors:

- Our interest income from cash and bank balance decreased by RMB33.1 million from 2014 to 2015, primarily because we deposited restricted cash of RMB1,127.4 million at bank for an extended period of time in 2014 while we kept less of our proprietary assets in cash in 2015.
- Our interest income from financial assets purchased under agreements to resell decreased by RMB7.7 million from 2014 to 2015, primarily because we allocated less of our proprietary assets into such financial assets in 2015 as compared to 2014.

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Net Changes in Fair Value on Financial Assets at Fair Value through Profit or Loss

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Net changes in fair value on financial assets at FVTPL increased by 92.2% from a loss of RMB106.1 million in the five months ended May 31, 2016 to a loss of RMB8.3 million in the five months ended May 31, 2017 primarily due to fluctuations in the Chinese stock markets. The Chinese stock markets dropped sharply in the first five months of 2016 (Shanghai Stock Exchange Composite Index (“SSE Index” dropped from 3,539.18 on December 31, 2015 to 2,916.62 on May 31, 2016)), which resulted in significant decline in the fair value of our financial assets at FVTPL during the period. In the first five months of 2017, the Chinese stock markets experienced less fluctuations as the SSE Index increased from 3,103.64 on December 31, 2016 to 3,117.18 on May 31, 2017, and as a result of less investment in mutual funds and equity investments held by consolidated structured entities, we recorded less losses in the net changes in fair value on financial assets at FVTPL.

Comparisons between 2016 and 2015

Net changes in fair value on financial assets at FVTPL was a gain of RMB55.5 million in 2015 as compared with a loss of RMB81.0 million in 2016 primarily due to fluctuations in the Chinese stock markets. The Chinese stock markets rose sharply in the first five months of 2015 (SSE Index rose from 3,234.68 on December 31, 2014 to 5,166.35 on June 12, 2015), which resulted in significant appreciation in the fair value of our financial assets at FVTPL, consisting mainly of listed shares and mutual funds as well as equity investments held by our consolidated trust schemes, but such increase was partially offset by depreciation in the fair value of our financial assets at FVTPL during the second half of 2015, due to the decline in Chinese stock market. In contrast, the Chinese stock markets experienced further decline in 2016 (SSE Index dropped from 3,539.18 on December 31, 2015 to 3,103.64 on December 31, 2016), which resulted in significant decline in the fair value of our financial assets at FVTPL during the period.

Comparisons between 2015 and 2014

Net changes in fair value on financial assets at FVTPL increased by 15.7% from a gain of RMB48.0 million in 2014 to a gain of RMB55.5 million in 2015 primarily due to fluctuations in the Chinese stock markets. The Chinese stock markets experienced a steady growth in 2014 (SSE Index rose from 2,115.98 on December 31, 2013 to 3,234.68 on December 31, 2014) and rose sharply in the first five months of 2015, but tumbled in June 2015 and experienced further significant fluctuations in 2015 (SSE Index rose from 3,234.68 on December 31, 2014 to 5,166.35 on June 12, 2015 and dropped to 3,539.18 on December 31, 2015).

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Investment Income

The following table summarizes the breakdown of our investment income for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Dividends income from:					
Available-for-sale equity investments	736	458	28,902	22,778	–
Net realized gains/(losses) from:					
Financial assets at fair value through profit or loss	34,394	203,770	19,736	4,877	1,998
Available-for-sale financial assets	13,690	11,610	37,814	4,867	2,621
Disposal of investment accounted for using the equity method	–	–	(2,372)	–	–
Total	48,820	215,838	84,080	32,522	4,619

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our investment income decreased by 85.8% from RMB32.5 million in the five months ended May 31, 2016 to RMB4.6 million in the same period of 2017 primarily because our dividends income from available-for-sale equity investments amounted to RMB22.8 million in the five months ended May 31, 2016 as we received special dividend declared by Minsheng Securities Co., Ltd. in which we hold a minority equity interest and account for as available-for-sale financial assets, while our dividends income from available-for-sale equity investments was nil in the five months ended May 31, 2017. In addition, we realized substantially less gain from financial assets at fair value through profit or loss and from available-for-sale financial assets as we traded smaller amount of such financial assets in the five months ended May 31, 2017 as compared to the same period in 2016.

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Comparisons between 2016 and 2015

Our investment income decreased significantly by 61.0% from RMB215.8 million in 2015 to RMB84.1 million in 2016 primarily because our net realized gain from financial assets at FVTPL decreased significantly from a gain of RMB203.8 million in 2015 to a gain of RMB19.7 million in 2016. As the Chinese stock markets rose sharply in the first five months of 2015, we traded a large amount of financial assets held for trading, consisting mainly of listed shares and mutual funds, during the period and realized substantial amount of gain from such trading activities. As the Chinese stock markets tumbled in June 2015 and remained at a relatively low level thereafter, we realized substantially less gain from trading in financial assets held for trading in 2016.

The decrease in our investment income from 2015 to 2016 was partially offset by RMB22.8 million of special dividend declared by Minsheng Securities Co., Ltd in which we hold a minority equity interest and account for as available-for-sale financial assets. The decrease in our investment income from 2015 to 2016 was partially offset by increase in net realized gains from available-for-sale financial assets from RMB11.6 million to RMB37.8 million, primarily because we disposed some of our listed shares and mutual funds.

Comparisons between 2015 and 2014

Our investment income increased significantly by 342.1% from RMB48.8 million in 2014 to RMB215.8 million in 2015 primarily because our net realized gain from financial assets held for trading increased significantly from RMB34.4 million in 2014 to RMB203.8 million in 2015. As the Chinese stock markets rose sharply in the first five months of 2015, tumbled in June 2015 and experienced further significant fluctuations in 2015, we traded a large amount of financial assets held for trading, consisting mainly of listed shares and mutual funds, in 2015 and realized substantial amount of gain from such activities. In comparison, the Chinese stock markets were more stable and experienced a steady growth in 2014 and therefore we realized less gain from trading financial assets at FVTPL in 2014 than in 2015. acquisition cost.

Total Operating Expenses

Interest Expenses

Our interest expenses during the Track Record Period represented (i) interest paid to China Trust Protection Fund Co., Ltd., (ii) interest paid for inter-bank borrowings and (iii) expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries).

FINANCIAL INFORMATION

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our interest expenses increased by 855.6% from RMB5.4 million in the five months ended May 31, 2016 to RMB51.6 million in the five months ended May 31, 2017 primarily due to the increase in interests paid to China Trust Protection Fund Co., Ltd., and the increase in expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries). We did not borrow from China Trust Protection Fund Co., Ltd. in the five months ended May 31, 2016. The increase in expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries) was primarily due to an increase in average balance of loans granted by our consolidated trust schemes from the five months ended May 31, 2016 to the five months ended May 31, 2017, and the decline in proportion of proprietary funds in such loans granted by our consolidated trust schemes.

Comparisons between 2016 and 2015

Our interest expenses decreased from RMB106.4 million in 2015 to RMB88.1 million in 2016 primarily due to decrease in expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries), as a result of increase in our proprietary investments in such trust schemes and drop in the investment return on such trust schemes as a result of drop in average interest rate charged by such trust schemes for their loans to counterparty clients as well as impairments identified on some of these loans.

The decrease in interest expense from 2015 to 2016 was partially offset by RMB12.4 million of interest paid to China Trust Protection Fund Co., Ltd. and RMB0.1 million of interest paid for borrowings from inter-bank market.

Comparisons between 2015 and 2014

Our interest expenses decreased from RMB124.9 million in 2014 to RMB106.4 million in 2015 primarily due to decrease in expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries) as a result of increase in our proprietary investments in such trust schemes and drop in the investment return on such trust schemes as impairments were identified on some of the loans granted by these trust schemes.

FINANCIAL INFORMATION

Staff Costs

The following table summarizes the breakdown of our staff costs for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Salaries and bonuses	83,950	96,150	137,278	45,027	60,322
Pension costs (defined contribution plans)	5,280	6,566	8,081	1,732	1,997
Housing funds	2,481	3,149	3,684	1,417	1,660
Labor union fee and staff education expenses	1,924	2,056	2,590	257	2,369
Other social security and benefit costs	8,104	7,821	10,118	1,563	2,240
Total	101,739	115,742	161,751	49,996	68,588

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our staff costs increased by 37.2% from RMB50.0 million in the five months ended May 31, 2016 to RMB68.6 million in the five months ended May 31, 2017 primarily due to the increases in salaries and bonuses, pension costs, housing funds, labor union fee and staff education expenses, and other social security and benefit costs. The increase in salaries and bonuses was caused by the increase in bonuses for our employees as a result of increase in our operating income, and the increase in the number of employees. The pension costs, the housing funds and labor union fee and staff education expenses were adjusted in accordance with the increase in salaries and bonuses.

Comparisons between 2016 and 2015

Our staff costs increased by 39.8% from RMB115.7 million in 2015 to RMB161.8 million in 2016 primarily due to the increase in salaries and bonuses, which included directors' and supervisors' emoluments. The increase in salaries and bonuses was primarily due to increase in bonuses for our employees. Bonuses for our employees increased from 2015 to 2016 notwithstanding the significant decrease in our total operating income primarily because bonuses for our employees are back-loaded and there is usually a time lag between the time we recognize fee and commission income from a trust scheme and the time when bonuses relating to such trust scheme become payable to the relevant employees.

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Comparisons between 2014 and 2015

Our staff costs increase by 13.8% from RMB101.7 million in 2014 to RMB115.7 million in 2015 primarily due to the increase in salaries and bonuses, which included directors' and supervisors' emoluments. The increase in salaries and bonuses were primarily due to increase in the number of employees from 169 as of December 31, 2014 to 194 as of December 31, 2015.

Change in Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

We recorded negative change in net assets attributable to other beneficiaries of consolidated structured entities of RMB3.3 million in the five months ended May 31, 2017 as compared with negative change of RMB54.5 million in the five months ended May 31, 2016, primarily because one of the securities investment trust schemes in which we made proprietary investment and consolidated incurred substantial amount of investment loss in the five months ended May 31, 2016 and our consolidated trust schemes recorded less net losses that were attributable to third-party beneficiaries in the five months ended May 31, 2017.

Comparisons between 2016 and 2015

We recorded negative change in net assets attributable to other beneficiaries of consolidated structured entities of RMB1.3 million in 2016 because our consolidated trust schemes recorded net losses that were attributable to third-party beneficiaries in 2016, while we recorded positive change in net assets attributable to other beneficiaries of consolidated structured entities of RMB0.02 million in 2015 because our consolidated trust schemes recorded a small amount of net gains that were attributable to third-party beneficiaries in 2015.

Comparison between 2015 and 2014

We recorded positive change in net assets attributable to other beneficiaries of consolidated structured entities of RMB0.02 million in 2015 because our consolidated trust schemes recorded a small amount of net gains that were attributable to third-party beneficiaries in 2015 while we recorded negative change in net assets attributable to other beneficiaries of consolidated structured entities of RMB2.0 million in 2014 because our consolidated trust schemes recorded net losses that were attributable to third-party beneficiaries in 2014.

FINANCIAL INFORMATION

Business Tax and Surcharges

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our business tax and surcharges decreased by 82.0% from RMB23.0 million in the five months ended May 31, 2016 to RMB4.1 million in the five months ended May 31, 2017 primarily due to the replacement of VAT for business tax in our operating income starting from May 1, 2016.

Comparisons between 2016 and 2015

Our business tax and surcharges decreased by 71.7% from RMB86.9 million in 2015 to RMB24.6 million in 2016 primarily due to the replacement of VAT for business tax on our operating income starting from May 1, 2016, and the decrease in our operating income that was subject to business tax from 2015 to 2016.

Comparison between 2015 and 2014

Our business tax and surcharges slightly increased by 1.4% from RMB85.8 million in 2014 to RMB86.9 million in 2015 primarily due to increase in our operating income that was subject to business tax from 2014 to 2015.

Other Operating Expenses

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our other operating expenses decreased by 28.3% from RMB20.9 million in the five months ended May 31, 2016 to RMB15.0 million in the five months ended May 31, 2017 primarily due to the decreases in business trip expenses and other administrative expenses as a result of strengthened control on such items by the Company.

Comparisons between 2016 and 2015

Our other operating expenses increased by 34.0% from RMB42.7 million in 2015 to RMB57.2 million in 2016 primarily due to increase in financial advisory fees to third parties.

Comparison between 2015 and 2014

Our other operating expenses decreased by 35.6% from RMB66.3 million in 2014 to RMB42.7 million in 2015 primarily due to significant decrease in our general and administrative expenses as a result of decrease in legal fees due to a significant amount of legal fees we incurred in 2014 in connection with the collection of an impaired loan as well as decrease in financial advisory fees to third parties.

FINANCIAL INFORMATION

Impairment Losses on Financial Assets

The following table summarizes the breakdown of our impairment losses on financial assets for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Net charge/(reversal) of impairment allowance on loans to customers					
– Collectively assessed . . .	4,960	(8,048)	14,380	2,026	25,450
– Individually assessed . . .	170,306	243,294	24,087	24,893	43,404
Net charge/(reversal) of impairment allowance on investments classified as loans and receivables					
– Collectively assessed . . .	1,776	(1,692)	2,051	(36)	1,555
Impairment losses on available-for-sale equity instrument	9,612	17,494	–	1,599	–
Total	<u>186,654</u>	<u>251,048</u>	<u>40,518</u>	<u>28,482</u>	<u>70,409</u>

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our impairment losses on financial assets increased by 147.2% from RMB28.5 million in the five months ended May 31, 2016 to RMB70.4 million in the five months ended May 31, 2017 primarily due to a significant increase in net charge of impairment allowance on loans to customers. We recorded less impairment charge on loans to customers in the five months ended May 31, 2016 than in the five months ended May 31, 2017 because a substantially larger amount of collectively assessed impairment allowance was made due to increase in loans to customers granted by consolidated trust schemes and more individually assessed impairment allowance was made for loans granted by several consolidated trust schemes in the five months ended May 31, 2017.

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Comparisons between 2016 and 2015

Our impairment losses on financial assets decreased by 83.9% from RMB251.0 million in 2015 to RMB40.5 million in 2016 primarily due to significant decrease in net charge of impairment allowance on loans to customers. We recorded significantly less impairment charge on loans to customers in 2016 because most of our impairment loans were identified in 2014 and 2015 and substantial amount of individually assessed impairment allowance on those loans were made in 2014 and 2015.

Comparisons between 2015 and 2014

Our impairment losses on financial assets increased by 34.5% from RMB186.7 million in 2014 to RMB251.0 million in 2015 primarily due to significant increase in net charge of impairment allowance on loans to customers. We recorded more impairment charge on loans to customers in 2015 than 2014 because we identified additional impaired loans in 2015 and substantial amount of individually assessed impairment allowance on those loans were made in 2015.

The increase in our impairment losses on financial assets was also due to an increase of RMB7.9 million in impairment losses on available-for-sale equity instruments as we identified impairments of some of our equity investments classified as available-for-sale financial assets in 2015 as a result of significant decline in the Chinese stock markets and therefore we recognized substantial amount of impairment losses in 2015.

Share of Profit of Investments Accounted for Using the Equity Method

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our share of profit of investments accounted for using equity method increased by 10.1% from RMB54.9 million in the five months ended May 31, 2016 to RMB60.5 million in the five months ended May 31, 2017 primarily due to the share of profit of investments in Shandong Province Financial Assets Management Co., Ltd. (山東省金融資產管理股份有限公司) made by a consolidated trust scheme in the amount of RMB8.3 million in the five months ended May 31, 2017. The increase was also contributed by the increase in our share of profit of our Company's investment in Shandong HOWO Automotive Finance Co., Ltd. (山東豪沃汽車金融有限公司) in the five months ended May 31, 2017, while we recorded share of loss in such investment in the five months ended May 31, 2016. The increase was partially offset by the share of loss we recorded in our Company's investment in First-Trust Fund Management Co., Ltd. (泰信基金管理有限公司), while we recorded share of profit in such investment in the five months ended May 31, 2016. The increase was also partially offset by the share of loss we recorded in investment in Shanghai Ruice Investment Co., Ltd. (上海瑞策投資有限公司) made by a consolidated trust scheme in the amount of RMB5.3 million in the five months ended May 31, 2017.

FINANCIAL INFORMATION

Comparisons between 2016 and 2015

Our share of profit of investments accounted for using the equity method decreased by 21.2% from RMB175.3 million in 2015 to RMB138.2 million in 2016 primarily because of decrease in our share of profit of investment in Fullgoal Fund Management Co., Ltd. (“Fullgoal”). We held 16.68% equity interest in Fullgoal as of December 31, 2015 and 2016. Fullgoal is a fund management company in China and its profit decreased from 2015 to 2016 primarily due to significant drop in the Chinese stock markets.

Comparisons between 2015 and 2014

Our share of profit of investments accounted for using the equity method increased by 85.3% from RMB94.6 million in 2014 to RMB175.3 million in 2015 primarily because of increase in our share of profit of investment in Fullgoal. We held 16.68% equity interest in Fullgoal as of December 31, 2014 and 2015. Fullgoal’s profit increased from 2014 to 2015 primarily due to steady growth in the Chinese stock markets in 2014 as compared to significant fluctuation in the Chinese stock markets in 2015.

Operating Profit Before Income Tax and Operating Margin

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

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Operating profit before income tax	1,285,506	1,345,813	1,077,128	354,190	500,698
Operating margin ⁽¹⁾	72.8%	75.4%	81.1%	93.8%	76.5%

Note:

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

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

As a result of the foregoing, our operating profit before income tax increased by 41.4% from RMB354.2 million in the five months ended May 31, 2016 to RMB500.7 million in the five months ended May 31, 2017. Our operating margin decreased from 93.8% in the five months ended May 31, 2016 to 76.5% in the five months ended May 31, 2017.

Comparisons between 2016 and 2015

As a result of the foregoing, our operating profit before income tax decreased by 20.0% from RMB1,345.8 million in 2015 to RMB1,077.1 million in 2016. Our operating margin increased from 75.4% in 2015 to 81.1% in 2016.

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Comparisons between 2015 and 2014

As a result of the foregoing, our operating profit before income tax increased by 4.7% from RMB1,285.5 million in 2014 to RMB1,345.8 million in 2015. Our operating margin increased from 72.8% in 2014 to 75.4% in 2015.

Income Tax Expense

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Our income tax expense increased by 41.4% from RMB71.3 million in the five months ended May 31, 2016 to RMB100.9 million in the five months ended May 31, 2017 primarily due to an increase in operating income generated by our Company.

Comparisons between 2016 and 2015

Our income tax expense decreased by 9.7% from RMB270.3 million in 2015 to RMB244.1 million in 2016 primarily due to decrease in operating income generated by our Company.

Comparisons between 2015 and 2014

Our income tax expense decreased by 9.9% from RMB299.9 million in 2014 to RMB270.3 million in 2015 primarily due to decrease in taxable profit generated by our Company.

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

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

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Net profit attributable to shareholders of the Company	985,508	1,075,510	833,029	282,858	399,844
Net profit margin ⁽¹⁾	55.8%	60.2%	62.8%	74.9%	61.1%

Note:

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

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Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

As a result of the foregoing, net profit attributable to shareholders of our Company increased by 41.4% from RMB282.9 million in the five months ended May 31, 2016 to RMB399.8 million in the five months ended May 31, 2017. Our net profit margin decreased from 74.9% in the five months ended May 31, 2016 to 61.1% in the five months ended May 31, 2017.

Comparisons between 2016 and 2015

As a result of the foregoing, net profit attributable to shareholders of our Company decreased by 22.5% from RMB1,075.5 million in 2015 to RMB833.0 million in 2016. Our net profit margin increased from 60.2% in 2015 to 62.8% 2016.

Comparisons between 2015 and 2014

As a result of the foregoing, net profit attributable to shareholders of our Company increased by 9.1% from RMB985.5 million in 2014 to RMB1,075.5 million in 2015. Our net profit margin increased from 55.8% in 2014 to 60.2% in 2015.

SEGMENT RESULTS OF OPERATIONS

From the business perspective, we conduct our business through two main business segments: trust business and proprietary business.

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

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Trust business:					
Operating income	1,323,042	1,057,860	847,996	310,117	475,180
Segment income	<u>1,323,042</u>	<u>1,057,860</u>	<u>847,996</u>	<u>310,117</u>	<u>475,180</u>
Proprietary business:					
Operating income	443,135	727,842	479,385	67,447	179,005
Share of profit of investments accounted for using the equity method	94,605	175,336	138,248	54,910	60,471
Segment income	<u>537,740</u>	<u>903,178</u>	<u>617,633</u>	<u>122,357</u>	<u>239,476</u>

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The following table sets forth our segment operating expenses for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Trust business	(245,618)	(223,974)	(244,174)	(88,548)	(93,283)
Proprietary business	(329,658)	(391,251)	(144,327)	10,264	(120,675)
Total operating expenses	<u>(575,276)</u>	<u>(615,225)</u>	<u>(388,501)</u>	<u>(78,284)</u>	<u>(213,958)</u>

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

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Trust business	1,077,424	833,886	603,822	221,569	381,897
Proprietary business	208,082	511,927	473,306	132,621	118,801
Total operating profit before income tax	<u>1,285,506</u>	<u>1,345,813</u>	<u>1,077,128</u>	<u>354,190</u>	<u>500,698</u>

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

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
Trust business	81.4%	78.8%	71.2%	71.4%	80.4%
Proprietary business	38.7%	56.7%	76.6%	108.4%	49.6%

Trust Business

Segment income from our trust business consists of our fee and commission income, interest income from our cash and bank balance, interest income from contribution to the Trust Industry Protection Fund and other operating income that are related to our trust business. Segment operating expenses of our trust business consists of staff costs, operating lease payments, depreciation and amortization, business tax and surcharges and other operating expenses that are related to our trust business.

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Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Segment operating profit before income tax for our trust business increased by 72.4% from RMB221.6 million in the five months ended May 31, 2016 to RMB381.9 million in the five months ended May 31, 2017 primarily due to a 53.2% increase in segment income from trust business from RMB310.1 million in the five months ended May 31, 2016 to RMB475.2 million in the five months ended May 31, 2017, which was partially offset by a 5.3% increase in segment operating expenses from trust business from RMB88.5 million in the five months ended May 31, 2016 to RMB93.3 million in the five months ended May 31, 2017.

- The increase in segment income from trust business was mainly due to an increase in our fee and commission income from RMB308.9 million in the five months ended May 31, 2016 to RMB472.7 million in the five months ended May 31, 2017. For detailed reasons for such increase in our fees and commission income, please see “— Results of Operations — Total Operating Income — Fee and Commission Income”.
- The increase in segment operating expenses from trust business was mainly due to an increase in our staff costs from RMB48.9 million in the five months ended May 31, 2016 to RMB67.2 million in the five months ended May 31, 2017, which was partially offset by (i) a decrease in business tax and surcharges from RMB14.0 million in the five months ended May 31, 2016 to RMB4.1 million in the five months ended May 31, 2017 and (ii) a decrease in other operating expenses from RMB20.9 million in the five months ended May 31, 2016 to RMB14.7 million in the five months ended May 31, 2017. For detailed reasons for such changes, please see “— Results of Operations — Total Operating Expenses — Staff Costs”, “— Results of Operations — Total Operating Expenses — Business Tax And Surcharges” and “— Results of Operations — Total Operating Expenses — Other Operating Expenses”.

As a result of the above, the segment margin of our trust business increased from 71.4% in the five months ended May 31, 2016 to 80.4% in the five months ended May 31, 2017.

Comparisons between 2016 and 2015

Segment operating profit before income tax for our trust business decreased by 27.6% from RMB833.9 million in 2015 to RMB603.8 million in 2016 primarily due to a 19.8% decrease in segment income from trust business from RMB1,057.9 million in 2015 to RMB848.0 million in 2016, and a 9% increase in segment expenses of trust business from RMB224.0 million in 2015 to RMB244.2 million in 2016.

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- The decrease in segment income from trust business was mainly due to decrease in our fee and commission income from RMB1,052.2 million in 2015 to RMB827.5 million in 2016. For detailed reasons for the decrease in our fees and commission income, please see “— Results of Operation — Total Operating Income — Fee and Commission Income”.
- The increase in segment operating expenses from trust business was mainly due to (i) increase in staff costs from RMB112.3 million in 2015 to RMB157.8 million in 2016 primarily due to increase in the bonuses payable to employees in 2016, (ii) increase in operating lease payments from RMB8.8 million in 2015 to RMB10.8 million in 2016 and increase in depreciation and amortization from RMB3.1 million in 2015 to RMB5.5 million in 2016, due to the increased aggregate gross floor area of our owned properties in 2016, and (iii) increase in other operating expenses from RMB42.7 million in 2015 to RMB56.9 million in 2016 due to the increase in financing advisory fees, which was partially offset by the decrease in business tax and surcharges from RMB57.0 million in 2015 to RMB13.2 million in 2016 due to the replacement of VAT for business tax on our operating income starting from May 1, 2016.

As a result of the above, the segment margin of our trust business decreased from 78.8% in 2015 to 71.2% in 2016.

Comparisons between 2015 and 2014

Segment operating profit before income tax for our trust business decreased by 22.6% from RMB1,077.4 million in 2014 to RMB833.9 million in 2015 primarily due to a 20.0% decrease in segment income from trust business from RMB1,323.0 million in 2014 to RMB1,057.9 million in 2015, which was partially offset by a 8.8% decrease in segment operating expenses from trust business from RMB245.6 million in 2014 to RMB224.0 million in 2015.

- The decrease in segment income from trust business was mainly due to decrease in our fee and commission income from RMB1,285.3 million in 2014 to RMB1,052.2 million in 2015 and, to a lesser extent, due to decrease in our interest income from cash and bank balance from RMB37.2 million in 2014 to RMB4.1 million in 2015. For detailed reasons for the decrease in our fees and commission income, please see “— Results of Operation — Total Operating Income — Fee and Commission Income”. For detailed reasons for the decrease in our interest income, please see “— Results of Operation — Total Operating Income — Interest Income”.

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- The decrease in segment operating expenses from trust business was mainly due to (i) decrease in other operating expenses from RMB66.2 million in 2014 to RMB42.7 million in 2015 primarily due to reduced legal fees in connection with the collection of an impaired loan in 2014 and (ii) decrease in business tax and surcharges from RMB68.7 million in 2014 to RMB57.0 million in 2015 as a result of decrease in fee and commission income, which was partially offset by increase in staff costs from RMB99.2 million in 2014 to RMB112.3 million in 2015.

As a result of the above, the segment margin of our trust business decreased from 81.4% in 2014 to 78.8% in 2015.

Proprietary Business

Segment income from our proprietary business consists of interest income from loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell, net changes in fair value on financial assets at FVTPL, investment income and share of profit of investments accounted for using the equity method. Segment operating expenses of our proprietary business consists of trust benefits that our consolidated financing trust schemes expected to distribute to third-party beneficiaries, staff costs, depreciation and amortization, changes in net assets attributable to other beneficiaries of our consolidated investment trust schemes, business tax and surcharges and impairment losses on financial assets.

Comparison between the five months ended May 31, 2016 and the five months ended May 31, 2017

Segment operating profit before income tax for our proprietary business decreased by 10.4% from RMB132.6 million in the five months ended May 31, 2016 to RMB118.8 million in the five months ended May 31, 2017 primarily due to a 1,275.7% increase in segment operating expenses from proprietary business from negative RMB10.3 million in the five months ended May 31, 2016 to RMB120.7 million in the five months ended May 31, 2017, which was partially offset by a 95.7% increase in segment income from proprietary business from RMB122.4 million in the five months ended May 31, 2016 to RMB239.5 million in the five months ended May 31, 2017.

- The increase in segment operating expenses from proprietary business was mainly due to (i) an increase in interest expenses from RMB5.4 million in the five months ended May 31, 2016 to RMB51.6 million in the five months ended May 31, 2017; (ii) a decrease in the amount of negative change in net assets attributable to other beneficiaries of consolidated structured entities from RMB54.5 million in the five months ended May 31, 2016 to RMB3.3 million in the five months ended May 31, 2017; and (iii) an increase in impairment losses on financial assets from RMB28.5 million in the five months ended May 31, 2016 to RMB70.4 million in the five months ended May 31, 2017. For detailed reasons for these changes, please see “— Results of Operations — Total Operating Expenses — Interest

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Expenses”, “— Results of Operations — Total Operating Expenses — Change in Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities” and “— Results of Operations — Total Operating Expenses — Impairment Losses on Financial Assets”.

- The increase in segment income from proprietary business was mainly due to (i) an increase in interest income from RMB141.1 million in the five months ended May 31, 2016 to RMB182.7 million in the five months ended May 31, 2017 and (ii) that net changes in fair value on financial assets at fair value through profit or loss was a loss of RMB106.1 million in the five months ended May 31, 2016 and was a loss of RMB8.3 million in the five months ended May 31, 2017. For detailed reasons for these changes, please see “— Results of Operations — Total Operating Income — Interest Income” and “— Results of Operations — Total Operating Income — Net Changes in Fair Value on Financial Assets at Fair Value through Profit or Loss”.

As a result of the above, the segment margin of our proprietary business decreased from 108.4% in the five months ended May 31, 2016 to 49.6% in the five months ended May 31, 2017.

Comparisons between 2016 and 2015

Segment operating profit before income tax for our proprietary business decreased by 7.5% from RMB511.9 million in 2015 to RMB473.3 million in 2016 primarily due to a 31.6% decrease in segment income from proprietary business from RMB903.2 million in 2015 to RMB617.6 million in 2016, which was partially offset by a 63.1% decrease in operating expenses from proprietary business from RMB391.3 million in 2015 to RMB144.3 million in 2016.

- The decrease in segment income from proprietary business was mainly due to (i) a loss of RMB81.0 million in fair value on financial assets at fair value through profit or loss in 2016 as compared to a gain of RMB55.5 million in 2015 ; (ii) a decrease in investment income from RMB215.8 million in 2015 to RMB84.1 million in 2016; and (iii) a decrease in interest income from loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell from RMB456.5 million in 2015 to RMB445.4 million in 2016. For detailed reasons for these decreases, please see “— Results of Operation — Total Operating Income — Net Changes in Fair Value on Financial Assets at Fair Value through Profit or Loss”, “— Results of Operation — Total Operating Income — Investment Income” and “— Results of Operation — Total Operating Income — Interest Income”.

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- The decrease in segment operating expenses from proprietary business was mainly due to (i) significantly decrease in impairment losses on financial assets from RMB251.0 million in 2015 to RMB40.5 million in 2016; and (ii) decrease in interest expenses, mainly due to the decrease in trust benefits that our consolidated trust schemes expected to distribute to third-party beneficiaries from RMB106.4 million in 2015 to RMB75.7 million in 2016. For detailed reasons for these changes, please see “— Results of Operation — Total Operating Expenses — Impairment Losses on Financial Assets” and “— Results of Operation — Total Operating Expenses — Interest Expenses”.

As a result of the above, the segment margin of our proprietary business increased from 56.7% in 2015 to 76.6% in 2016.

Comparisons between 2015 and 2014

Segment operating profit before income tax for our proprietary business increased by 146.0% from RMB208.1 million in 2014 to RMB511.9 million in 2015 primarily due to a 68.0% increase in segment income from proprietary business from RMB537.7 million in 2014 to RMB903.2 million in 2015, which was partially offset by a 18.7% increase in segment operating expenses from proprietary business from RMB329.7 million in 2014 to RMB391.3 million in 2015.

- The increase in segment income from proprietary business was mainly due to (i) an increase in investment income from RMB48.8 million in 2014 to RMB215.8 million in 2015; and (ii) an increase in interest income from loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell from RMB346.3 million in 2014 to RMB456.5 million in 2015. For detailed reasons for these increases, please see “— Results of Operation — Total Operating Income — Investment Income” and “— Results of Operation — Total Operating Income — Interest Income”.
- The increase in segment operating expenses from proprietary business was mainly due to increase in impairment losses on financial assets from RMB186.7 million in 2014 to RMB251.0 million in 2015, which was partially offset by decrease in trust benefits that our consolidated trust schemes expected to distribute to third-party beneficiaries from RMB124.9 million in 2014 to RMB106.4 million in 2015. For detailed reasons for these changes, please see “— Results of Operation — Total Operating Expenses — Impairment Losses on Financial Assets” and “— Results of Operation — Total Operating Expenses — Interest Expenses”.

As a result of the above, the segment margin of our proprietary business increased from 38.7% in 2014 to 56.7% in 2015.

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SELECTED CONSOLIDATED FINANCIAL POSITIONS

Our consolidated statements of financial positions include the proprietary assets and liabilities of our Company as well as the assets and liabilities of our consolidated trust schemes. Net assets attributable to third-party beneficiaries of our consolidated trust schemes are accounted for as liabilities in our consolidated statements of financial positions.

Assets

As of December 31, 2014, 2015, 2016 and May 31, 2017, total assets of our Group amounted to RMB7,635.0 million, RMB8,170.8 million, RMB8,648.0 million and RMB10,052.2 million, respectively, among which total assets of our Company amounted to RMB5,873.5 million, RMB6,586.3 million, RMB7,102.3 million and RMB7,267.5 million, respectively. Our major assets consists of (i) loans to customers, (ii) investments accounted for using the equity method, (iii) available-for-sale financial assets, (iv) financial assets at FVTPL, (v) cash and bank balance, (vi) trustee's remuneration receivable, (vii) financial assets purchased under agreement to resell and (viii) investments classified as loans and receivables. As of May 31, 2017, the above-mentioned major assets accounted for 47.2%, 16.3%, 8.7%, 3.9%, 1.6%, 4.0%, 6.2% and 2.6% of our total assets, respectively.

Loans to Customers

The following table sets forth the gross amount of our loans to customers, the amount of allowance for impairment losses broken down by collective assessment and individual assessment, net amount of our loans to customers, as well as classification of our loans to customers into non-current and current assets as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Loans to customers, gross . . .	3,396,411	3,592,792	4,259,691	5,022,171
Less: allowance for impairment losses				
– Collectively assessed	(60,384)	(52,336)	(66,716)	(92,166)
– Individually assessed	(220,730)	(464,024)	(144,740)	(188,144)
Loans to customers, net . . .	<u>3,115,297</u>	<u>3,076,432</u>	<u>4,048,235</u>	<u>4,741,861</u>
Analyzed into:				
– Non-current assets	1,884,294	969,314	3,133,438	3,307,010
– Current assets	1,231,003	2,107,118	914,797	1,434,851

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The substantial majority of our loans to customers were granted by our consolidated trust schemes during the Track Record Period. The gross amount of our loans to customers increased continuously during the Track Record Period primarily because of the expansion of our financing trusts and our increased investments in our financing trusts that resulted in their consolidation into our financial statements.

All of our loans were granted to corporate customers during the Track Record Period.

Some of the loans granted by our trust schemes to which we provided liquidity support or made proprietary investment and consolidated into our financial statements were identified as impaired during the Track Record Period. The aggregated gross amount of such impaired loans amounted to RMB377.2 million, RMB976.0 million, RMB273.9 million and RMB413.9 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. The aggregate fair value of collateral (estimated based on the latest external valuations available and adjusted by the experience of realization of the collateral in current market conditions) for such loans outstanding as of December 31, 2014, 2015, 2016 and May 31, 2017 was RMB349.3 million, RMB601.4 million, RMB133.9 million and RMB316.1 million, respectively. We performed individual assessments to determine the allowance for impairment losses on those loans and made allowance for impairment of RMB220.7 million, RMB464.0 million, RMB144.7 million and RMB188.1 million for these impaired loans as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, representing 58.5%, 47.5%, 52.8% and 45.5% of the gross amount of those loans, respectively. We believe adequate impairment allowances have been provided for those impaired loans, as such impairment allowances were provided in accordance with literature under IAS 39 “Financial Instruments: Recognition and Measurement”. Such impairment allowances were measured by the difference between carrying amount of those impaired loans and present value of estimated future cash flows, in particular, disposal proceeds after deduction of expenses attributable to such disposals as of each of the balance sheet dates, respectively. The gross amount of such impaired loans accounted for 11.1%, 27.2%, 6.4% and 8.2% of our total gross loans to customers as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively.

While our Company is allowed to grant loans to customers using our proprietary assets, which are referred to as our proprietary loans, we do not engage in such business on a regular basis and have granted limited number of proprietary loans during the Track Record Period. Gross amount of our proprietary loans accounted for 4.2%, 8.3%, nil and nil of the gross amount of our total loans granted to customers as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. Net amount of our proprietary loans accounted for 4.5%, 9.6%, nil and nil of the net amount of our total loans granted to customers as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively.

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The following table sets forth the gross amount of our proprietary loans, the amount of allowance for impairment losses on such loans broken down by collective assessment and individual assessment, net amount of such loans, as well as classification of such loans into non-current and current assets as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Loans to customers, gross . . .	141,500	299,890	—	—
Less: allowance for impairment losses				
– Collectively assessed	(2,830)	(5,998)	—	—
– Individually assessed	—	—	—	—
Loans to customers, net . . .	138,670	293,892	—	—
Analyzed into:				
– Non-current assets	—	—	—	—
– Current assets	138,670	293,892	—	—

As our proprietary loans were mostly granted to counterparty clients of our financing trusts as bridge financing before proceeds of the loans from our trusts were released to them, changes in the amount of such loans during the Track Record Period mainly reflected our agreements with different counterparty clients at different times, and all of such loans were short-term in nature and were classified as current assets.

None of our proprietary loans was identified as impaired during the Track Record Period. As such, no allowance for impairment losses was made as a result of any individual assessment of our proprietary loans.

For further analysis of our loans to customers by overdue and impaired status, analysis of our loans to customers that are neither overdue nor impaired by type of security, aging analysis of our loans to customers that are overdue but not impaired, and fair value of collaterals for our loans to customers that are impaired, please see “— Qualitative and Quantitative Disclosures about Financial Risks — Credit Risk — Credit Risk from Loans to Customers”.

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Investments Accounted for Using Equity Method

We have made equity investments in various companies in the financial services industries in the PRC. When we have significant influence but not control over an investee company, we treat such investee company as an associate and we account for our investments in associates using the equity method of accounting. The following table sets forth the associates of our Company and our consolidated trust schemes and the book value of our investments in them as of the dates indicated:

	Equity Interest as of May 31, 2017	As of December 31,			As of May 31,
		2014	2015	2016	2017
(RMB in thousands)					
<i>Associates of the Company:</i>					
Fullgoal Fund Management Co., Ltd.	16.68%	252,711	420,309	409,979	454,799
Dezhou Bank Co., Ltd.	4.28%	124,577	139,767	142,414	143,825
First-Trust Fund Management Co., Ltd.	45.00%	159,104	123,929	115,336	113,406
Shandong HOWO Auto Finance Co., Ltd.	30.00%	–	150,438	152,004	157,265
Jinding Leasing Co., Ltd.	N/A ⁽¹⁾	106,097	101,120	–	–
Zouping SPD Rural Bank Co., Ltd.	10.00%	27,132	26,050	25,869	27,468
Qilu Rural Property Rights Exchange Center Co., Ltd.	N/A ⁽¹⁾	6,590	12,512	–	–
Shandong Lu Xin Asset Management Consulting Co., Ltd.	N/A ⁽¹⁾	2,000	2,000	–	–
Gross amount		678,211	976,125	845,602	896,763
Impairment allowance		(2,000)	(2,000)	–	–
Associates of the Company, net		676,211	974,125	845,602	896,763
Associates of the Company's certain consolidated structured entities					
Shandong Provincial Financial Asset Management Co., Ltd.	4.95%	–	–	575,500	582,721
Tailong Health Industry Investment Company Limited	44.44%	–	40,000	80,000	80,000
Others		19,000	14,000	65,000	78,160
Gross amount		19,000	54,000	720,500	740,881
Less: Impairment allowance		–	–	–	–
Associates of the Company's certain consolidated structured entities, net		19,000	54,000	720,500	740,881
Total		695,211	1,028,125	1,566,102	1,637,644

Note:
(1) Disposed in December 2016.

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Changes in the book value of our investments in these associates mainly reflect changes in their net assets as a result of profit or loss and other comprehensive income or loss they generated during the relevant period as well as any profit distribution. For additional information, see note 16 of the Accountants' Report in Appendix I to this prospectus.

Among our associates, Shandong Lu Xin Asset Management Consulting Co., Ltd. has been loss-making for years and its business has been suspended. As such, we concluded that our full investment cost cannot be recovered and made a full impairment allowance of RMB2 million for this investment and removed it from our accounts in 2016. In 2016, one of our consolidated trust schemes with the aggregate AUM of RMB575.5 million engaged in equity investment in Shandong Provincial Financial Asset Management Co., Ltd, a related party, and we made investment of RMB574.5 million fund into the scheme.

In addition, in December 2016, we disposed of our equity interest in Jinding Leasing Co., Ltd. to Shandong Luxin Financial Holdings Co., Ltd., a subsidiary of Lucion Group, at a price of RMB101.2 million. We had received the cash consideration in full as of the Latest Practicable Date. Such disposal did not result in significant gain or loss to us.

Depending on our business needs, the business operation and financial performance of the relevant associates as well as market conditions, we may decide to dispose our equity interests in some of our associates from time to time. As of the Latest Practicable Date, we plan to dispose and have taken certain measures for the disposal of all of our equity interests in First-Trust Fund Management Co., Ltd., Dezhou Bank Co., Ltd. and Zouping SPD Rural Bank Co., Ltd., and we are still looking for an appropriate buyer of such equity interests and do not expect such disposals, if completed, will have a material adverse effect on our financial condition or results of operation.

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Available-for-Sale Financial Assets

The following table sets forth the components and amount of our available-for-sale financial assets as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Listed equity shares (at fair value)	110,868	120,934	42,408	32,238
Unlisted (at fair value)				
– Equity investments in non-listed companies	583,444	360,124	347,718	377,377
– Mutual funds	411,030	639,111	262,629	231,979
– Asset management products	100	7,284	155,646	158,209
– Trust schemes	30,521	179,140	–	–
– Trust Industry Protection Fund	–	43,495	57,800	72,313
Total	1,135,963	1,350,088	866,201	872,116

Our available-for-sale financial assets include listed shares and various types of unlisted financial assets, including (i) our equity investments in non-listed companies, (ii) investments in mutual funds, (iii) investments in certain asset management products, (iv) investments in our trust plans the underlying assets of which are not loans to customers, and (v) our subscription to the mandatory Trust Industry Protection Fund.

Except for RMB150 million of investments in our consolidated trust schemes as of December 31, 2015, all of our available-for-sale financial assets as of December 31, 2014, 2015, 2016 and May 31, 2017 were proprietary assets of our Company.

The changes in the major composition of our available-for-sale financial assets were due to the flexible adjustment of portfolio based on the market conditions by our Company in order to increase investment returns. Our available-for-sale financial assets increased from RMB1,136.0 million as of December 31, 2014 to RMB1,350.1 million as of December 31, 2015 primarily because we increased allocation of our proprietary assets into mutual funds which was partially offset by decrease in our proprietary equity investments in non-listed companies considering the decline in the Chinese stock markets in the second half of 2015. Our available-for-sale financial assets decreased to RMB866.2 million as of December 31, 2016 primarily because we reduced proprietary investments in listed shares, mutual funds and investments in our consolidated trust schemes. Our available-for-sale financial assets increased to RMB872.1 million as of May 31, 2017 primarily due to the increase in the fair value of our equity investments in non-listed companies and Trust Industry Protection Fund, which was partially offset by the decrease in our investment in mutual funds.

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In accordance with IFRSs, we assess at the end of each reporting period whether there is objective evidence that any of our available-for-sale financial assets is impaired. As of December 31, 2014, 2015, 2016 and May 31, 2017, we made allowance for impairment losses in the amount of RMB61.4 million, RMB56.7 million, RMB11.5 million and RMB11.5 million, respectively, on our available-for-sale financial assets.

Financial Assets at FVTPL

The following table sets forth the components and amount of our financial assets at FVTPL as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Financial assets held for trading				
Equity investments				
Listed shares	37,992	49,694	25,673	21,411
Mutual funds	244,767	194,808	48,311	84,053
Subtotal	282,759	244,502	73,984	105,464
Financial assets designated at fair value through profit or loss				
Equity investments held by consolidated structured entities	120,307	148,822	231,491	269,194
Equity investment in an unlisted entity	–	–	–	20,000
Total	403,066	393,324	305,475	394,658

Our financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL. All of our financial assets held for trading were held by our Company as our proprietary assets during the Track Record Period and included listed shares and mutual funds. All of our financial assets designated at FVTPL were equity investments held by some of our consolidated trust schemes and equity investment in an unlisted entity during the Track Record Period.

The changes in the major composition of our financial assets at FVTPL were due to the flexible adjustment of portfolio based on the market conditions by us in order to increase investment returns. Our financial assets at FVTPL slightly decreased from RMB403.1 million as of December 31, 2014 to RMB393.3 million as of December 31, 2015, then decreased to RMB305.5 million as of December 31, 2016 primarily due to decrease in

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our proprietary investments in listed shares and mutual funds given the decline in the Chinese stock markets since June 2015, which was partially offset by increase in our equity investments held by our consolidated trust schemes as we made substantial amount of proprietary investment in a consolidated securities investment trust in 2016. Financial assets at FVTPL increased from RMB305.5 million as of December 31, 2016 to RMB394.7 million as of May 31, 2017, primarily due to the increase in our investment in mutual funds and the increase in our equity investments held by consolidated trust schemes, which was partially offset by the decrease of our equity investments in listed shares due to fluctuations of Chinese stock markets.

Cash and Bank Balance

As of December 31, 2014, 2015, 2016 and May 31, 2017, our cash and bank balance amounted to RMB387.6 million, RMB481.7 million, RMB274.5 million and RMB156.9 million, respectively, among which RMB287.2 million, RMB339.0 million, RMB162.1 million and RMB79.9 million, respectively, were proprietary assets of our Company, the remaining was cash and bank balance of our consolidated trust schemes. Our cash and cash bank balance as of May 31, 2017, decreased because we increased our investment in high-return financial products. We deposit substantially all of our cash at commercial banks in China.

Trustee's Remuneration Receivable

Our trustee's remuneration receivable represents trustee's remuneration that has accrued to us as the trustee but has not yet been paid from the trust accounts of our unconsolidated trust schemes to our proprietary accounts.

Our trustee's remuneration receivable was RMB769.4 million, RMB671.1 million, RMB203.1 million and RMB403.9 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. Because we, as the trustee, have closely monitored the trust accounts of our unconsolidated trust schemes, we had not proactively transferred our accrued trustee's remuneration from trust accounts of our unconsolidated trust schemes to our proprietary accounts in the past and therefore we had a large amount of trustee's remuneration receivable in 2014 and 2015. Since late 2015, we have improved our business practice and required that our trustee's remuneration be transferred from trust accounts to our proprietary accounts promptly after it was accrued, which contributed to the significant decline in our trustee's remuneration receivable from December 31, 2015 to December 31, 2016. However, as we are usually allowed to collect our trustee's remuneration in arrears in one or more installments according to our trust contracts, we expect to continue to have certain amount of trustee's remuneration receivable in the future. As of September 30, 2017, 58.15% of the trustee's remuneration receivable as of May 31, 2017 was recovered.

Financial Assets Purchased under Agreements to Resell

Our financial assets purchased under agreements to resell consist of the treasury notes we purchased under agreements to resell as part of our proprietary business. As of December 31, 2014, 2015, 2016 and May 31, 2017, the treasury notes we purchased under

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agreements to resell amounted to RMB595.8 million, RMB423.6 million, RMB298.9 million and RMB619.9 million, respectively. These changes were due to the flexible adjustment of the business scale of our treasury notes reverse repurchase business based on overall market condition and interest rate.

Advance Payments

We had advance payments of RMB165.4 million, RMB231.8 million, RMB2.8 million and RMB7.5 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, which primarily related to the construction of two office buildings which we originally planned to purchase from an independent third party upon the completion of the construction. Due to recent government policy discouraging state-owned enterprises from purchasing new office buildings, we disposed our interests in the construction projects to a government related entity in December 2016 and we recognized other operating income of RMB31.0 million from the disposal.

Contribution to Trust Industry Protection Fund due from Counterparty Clients

Pursuant to the Administrative Measures on Trust Industry Protection Fund issued by the CBRC in December 2014, counterparty clients of our financing trusts should make contributions to the Trust Industry Protection Fund and we collect the required contribution funds from our counterparty clients and pay to the Trust Industry Protection Fund on behalf of the counterparty clients. Upon liquidation of a financing trust, the Trust Industry Protection Fund will return the contribution funds and any accrued interests to us and we then distribute them to the counterparty clients. From time to time, however, we may agree to pay such contribution funds on behalf of our counterparty clients, and in such cases, we will be entitled to keep the contribution funds and any accrued interests when they are returned to us by the Trust Industry Protection Fund upon liquidation of the relevant financing trusts. We adopted such practice in order to avoid unnecessary payment transactions between us and our counterparty clients and to provide better services. We will not be subject to the credit risk of our counterparty clients as a result of such practice because the contribution funds will be returned to us by the Trust Industry Protection Fund upon liquidation of the financing trusts. We record the amount of contribution funds we have paid on behalf of our counterparty clients as contribution to Trust Industry Protection Fund due from our counterparty clients, which amounted to nil, RMB159.9 million, RMB307.2 million and RMB466.7 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively, among which nil, RMB159.9 million, RMB205.1 million and RMB254.0 million was classified as non-current assets, and nil, nil, RMB102.1 million and RMB212.7 million was classified as current assets. Instead of collecting such amounts from the counterparty clients before liquidation of the financing trusts, we recover such amounts from distributions to be made by the Trust Industry Protection Fund upon termination of the financing trusts. As of the Latest Practicable Date, we have not encountered any difficulty in recovering such amounts from distributions made by the Trust Industry Protection Fund upon termination of our financing trusts. Our PRC legal advisor has advised us that there is

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no PRC laws or regulations that prohibit such payment arrangement between us, the counterparty clients of our financing trusts and the Trust Industry Protection Fund, and we believe it has become a common practice in the trust industry in China.

Liabilities

As of December 31, 2014, 2015, 2016 and May 31, 2017, our total liabilities amounted to RMB2,238.1 million, RMB2,173.3 million, RMB2,306.9 million and RMB3,567.7 million, respectively. As a trust company in China, we are not allowed to incur any debt in operating our business other than through inter-bank borrowings or otherwise allowed by the CBRC. Our major liabilities during the Track Record Period included net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), tax payables, short-term borrowings, dividend payable, salary and welfare payable (both current and non-current portion) and other current liabilities. As of May 31, 2017, net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion), short-term borrowings, dividend payable, tax payables, salary and welfare payable (both current and non-current portion) and other current liabilities accounted for 76.7%, 8.4%, 7.1%, 3.3%, 2.7% and 1.7% of our total liabilities, respectively.

Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities (both current and non-current portion)

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

As of December 31, 2014, 2015, 2016 and May 31, 2017, our total net assets attributable to other beneficiaries of consolidated structured entities (both current and non-current portion) amounted to RMB1,754.2 million, RMB1,529.2 million, RMB1,541.3 million and RMB2,737.4 million, respectively. Changes in such amount mainly reflected changes in the number and net assets of our consolidated trust schemes as well as percentage of our proprietary investment in such trust schemes.

Tax Payables

Our tax payable consisted primarily of enterprise income tax payable by our Company. Our income tax payable amounted to RMB294.8 million, RMB343.6 million, RMB68.4 million and RMB116.9 million as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively.

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Other Current Liabilities

Our other current liabilities during the Track Record Period consisted mainly of Trust Industry Protection Fund collected from counterparty clients of our financing trusts, deferred trustee's remuneration fee income and other tax payable. We had Trust Industry Protection Fund collected from counterparty clients of our financing trusts of RMB178.4 million, RMB58.7 million and RMB10.3 million as of December 31, 2015, 2016 and May 31, 2017, respectively. Our deferred trustee's remuneration fee income amounted to RMB50.2 million, RMB14.7 million, RMB26.3 million and RMB28.2 million as of December 31, 2014, 2015, 2016 and May 31, 2017. Other tax payables amounted to RMB51.7 million, RMB61.0 million, RMB39.5 million and RMB13.9 million as of December 31, 2014, 2015, 2016 and May 31, 2017. Pursuant to the *Administrative Measures on Trust Industry Protection Fund* issued by the CBRC in December 2014, counterparty clients of our financing trusts should make contributions to the Trust Industry Protection Fund and we collect the required contribution funds from our counterparty clients and then pay to the Trust Industry Protection Fund on behalf of the counterparty clients.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our working capital and other capital requirements primarily from cash generated from our business operations, capital injections by the shareholders of our Company and short-term borrowings. We do not rely on bank loans to fund our business operation and expansion. As of May 31, 2017, we had aggregate cash and bank balance of RMB156.9 million, among which RMB79.9 million was held by our Company as proprietary assets. As of September 30, 2017, we had aggregate cash and bank balance of RMB203.2 million, among which RMB106.4 million was held by our Company as proprietary assets.

After the Global Offering, we intend to finance our future capital requirements through our operating cash flow, together with the net proceeds we expect to receive from the Global Offering.

We are of the opinion that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including short-term borrowings, cash and bank balances and cash flows from our operations, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this prospectus.

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Cash Flows

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Net cash generated from/(used in) operating activities	935,908	978,683	(61,877)	(50,307)	105,627
Net cash (used in)/generated from investing activities	(180,609)	(594,867)	(237,760)	389,487	(15,011)
Net cash (used in)/generated from financing activities	(701,054)	(290,061)	91,983	(395,597)	(208,025)
Effect of exchange rate changes on cash and cash equivalents	23	386	443	90	(156)
Net increase/(decrease) in cash and cash equivalents	54,268	94,141	(207,211)	(56,327)	(117,565)
Cash and cash equivalents at the beginning of the year/period	333,288	387,556	481,697	481,697	274,486
Cash and cash equivalents at the end of the year/period	387,556	481,697	274,486	425,370	156,921

Operating Activities

Our cash inflows from operating activities consist primarily of our fees and commission income, interest income, collection of loans to customers and proceeds from disposition of our financial assets at FVTPL. Our cash outflows used in operating activities primarily consist of disbursement of loans to customers, payments for purchases of financial assets at FVTPL and payments of staff costs and our various other operating expenses.

We have used indirect method to prepare our consolidated statements of cash flows. Under such method, our net cash flows from operating activities reflect (i) profit before income tax adjusted for non-cash items, including depreciation and amortization, impairment losses on financial assets, fair value changes in financial assets at FVTPL,

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interest expense paid, investment income received from available-for-sale investments and investment income from associate companies etc.; (ii) the effects of movements in working capital, including financial assets at FVTPL, loans to customers, investments classified as loans and receivables, financial assets purchased under agreements to resell, other operating assets and other operating liabilities; and (iii) income tax paid.

Among others, the effects of movements in other operating liabilities during the Track Record Period are set forth in the following table:

	Year ended December 31,			Five Months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in million)				
Net increase/(decrease) in net assets attributable to other beneficiaries of consolidated structured entities ⁽¹⁾	48.0	(225.0)	13.4	(331.6)	1,199.4
Net increase/(decrease) in subscription amount of Trust Industry Protection Fund collected from borrowers	–	178.4	(119.7)	25.1	(40.4)
Net increase/(decrease) in deferred trustee's remuneration fee income	75.9	(35.6)	11.6	12.6	2.0
Net increase/(decrease) in defer tax liabilities	37.6	(37.6)	–	–	–
Other	(30.0)	(42.2)	4.4	(85.2)	(2.7)
Net increase/(decrease) in other operating liabilities	<u>131.5</u>	<u>(162.0)</u>	<u>(90.3)</u>	<u>(379.1)</u>	<u>1,158.3</u>

Note:

(1) Consolidated structured entities refer to our consolidated trust schemes.

In the five months ended May 31, 2017, we had net cash generated from operating activities of RMB105.6 million primarily due to (i) our profit before income tax of RMB500.7 million, adjusted for certain non-cash items, mainly impairment losses on financial assets of RMB70.4 million and investment income from investments accounted for using the equity method of RMB60.5 million, (ii) movements in working capital consisting mainly of net increase in loans to customers of RMB762.5 million and net increase in other operating liabilities of RMB1,158.3 million, primarily due to an increase in net assets attributable to other beneficiaries of the consolidated trust schemes of RMB1,199.4 million, partially offset by a net decrease in subscription amount of Trust Industry Protection Fund collected

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from borrowers of RMB40.4 million as recorded in other current liabilities. The above increase in net assets attributable to other beneficiaries of consolidated trust schemes of RMB1,199.4 million, is primarily due to (i) increase in net assets of our consolidated trust schemes, and (ii) rise in proportion of net assets of those schemes attributable to other beneficiaries. See “Financial Information — Selected Consolidated Financial Positions — Liabilities — Net Assets Attributable to Other Beneficiaries of Consolidated Structured Entities (both current and non-current portion)” for detailed factors affecting the change of this balance, and (iii) income tax paid of RMB71.6 million.

In 2016, we had net cash used in operating activities of RMB61.9 million primarily due to (i) our profit before income tax of RMB1,077.1 million, adjusted for certain non-cash items, mainly negative fair value change in financial assets at FVTPL of RMB81.0 million and investment income from associate companies of RMB138.2 million, (ii) movements in working capital consisting mainly of net decrease in other operating liabilities of RMB90.3 million mainly due to a net decrease in subscription amount of Trust Industry Protection Fund collected from borrowers of RMB119.7 million as recorded in other current liabilities, and a net increase in net assets attributable to other beneficiaries of the consolidated structured entities of RMB13.4 million, net decrease in other operating assets of RMB484.4 million due to significant decrease in trustee’s remuneration receivable, increase in loans to customers of RMB1,010.3 million due to the increased consolidated trust schemes of which the underlying asset is loans to customers, increase in investments classified as loans and receivable of RMB102.6 million due to the increase in investments in unconsolidated trust schemes of which the underlying asset is loans to customers, and decrease in financial assets purchased under agreements to resell of RMB124.7 million due to the flexible adjustment of the business scale of our treasury notes reverse repurchase business based on overall market condition and interest rate, and (iii) income tax paid of RMB454.2 million.

In 2015, we had net cash generated from operating activities of RMB978.7 million primarily due to (i) our profit before income tax of RMB1,345.8 million, adjusted for certain non-cash items, mainly impairment loss on financial assets of RMB251.0 million and investment income from associate companies of RMB175.3 million, (ii) movements in working capital consisting mainly of net increase in loans to customers of RMB196.4 million due to significant increase in the amount of loans granted by our consolidated trust schemes, net decrease in financial assets purchased under agreements to resell of RMB172.2 million due to our decreased allocation to such assets, and net decrease in other operating liabilities of RMB162.0 million mainly due to a net increase in subscription amount of Trust Industry Protection Fund collected from borrowers of RMB178.4 million as recorded in other current liabilities, and a net decrease in net assets attributable to other beneficiaries of the consolidated structured entities of RMB225.0 million, and (iii) income tax paid of RMB252.9 million.

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In 2014, we had net cash generated from operating activities of RMB935.9 million primarily due to (i) our profit before income tax of RMB1,285.5 million, adjusted for certain non-cash items, mainly impairment loss on financial assets of RMB186.7 million and investment income from associate companies of RMB94.6 million, (ii) movements in working capital consisting mainly of net decrease in other operating assets of RMB847.2 million due to decrease in restricted cash of RMB1,127.4 million and increase in trustee's remuneration receivable of RMB256.0 million, net increase in loans to customers of RMB574.8 million due to significant increase in the amount of loans granted by our consolidated trust schemes, net increase in financial assets purchased under agreements to resell of RMB389.1 million due to our increased allocation to such assets, and net increase in other operating liabilities of RMB131.5 million due to increase in net assets attributable to other beneficiaries of consolidated structured entities of RMB48.0 million and a net increase in deferred trustee's remuneration fee income of RMB75.9 million as recorded in other current liabilities, and (iii) income tax paid of RMB238.0 million.

Investing Activities

Our cash outflows from investing activities consist primarily of our payments for purchase of available-for-sale financial assets, investments in associate companies and long-term assets (including prepayment for a construction project) and intangible assets. Our cash inflows from investing activities consist primarily of proceeds from disposal of our available-for-sale financial assets and dividends received from associate companies.

We had net cash used in investing activities of RMB15.0 million for the five months ended May 31, 2017 primarily due to RMB18.5 million paid for purchase of investments accounted for using the equity method.

We had net cash used in investing activities of RMB237.8 million for the year ended December 31, 2016 primarily due to RMB666.5 million paid for purchase of investments accounted for using the equity method (mainly due to our consolidated trust schemes' acquisitions of equity interests in Shandong Provincial Financial Asset Management Co., Ltd. and Tailong Health Industry Investment Company Limited) and RMB190.8 million paid for purchase of available-for-sale financial assets, which was partially offset by RMB555.6 million of proceeds from sale of available-for-sale financial assets, and RMB130.3 million of dividends received from investments accounted for using the equity method.

We had net cash used in investing activities of RMB594.9 million in 2015 primarily because we paid RMB590.0 million for purchase of available-for-sale financial assets, RMB150.0 million for our equity investment in Shandong HOWO Auto Finance Co., Ltd. and RMB70.0 million as prepayment for a construction project, which was partially offset by proceeds from sale of available-for-sale financial assets of RMB212.8 million and dividends received from associate companies of RMB42.4 million during the period.

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We had net cash used in investing activities of RMB180.6 million in 2014 primarily because we paid RMB197.4 million for purchase of available-for-sale financial assets, RMB12.5 million for our equity investment in Qilu Rural Property Rights Exchange Center Co., Ltd. and RMB12.4 million as prepayment for a construction project, which was partially offset by proceeds from sales of available-for-sale financial assets of RMB36.9 million received during the period.

Financing Activities

Our cash outflows from financing activities mainly consist of dividends paid to our shareholders and repayment of short-term borrowings from inter-bank market and of loans we borrowed from China Trust Protection Fund Co., Ltd.. Our cash inflows from financing activities consist of short-term loan from China Trust Protection Fund Co., Ltd., and short-term borrowings from inter-bank market.

We had net cash used in financial activities of RMB208.0 million in the five months ended May 31, 2017 because of RMB200.0 million used for repayment of short-term borrowings from China Trust Protection Fund Co., Ltd., and RMB8.0 million paid to China Trust Protection Fund Co., Ltd. as interest expense.

We had net cash generated from financial activities of RMB92.0 million in 2016 because we obtained two loans from China Trust Protection Fund Co., Ltd. in the principal amount of RMB200 million and RMB300 million and short-term borrowings from inter-bank market in the amount of RMB100 million, which is partially offset by the interest we paid to China Trust Protection Fund Co., Ltd., which amounted to RMB12.4 million, the repayment of the short-term borrowings from inter-bank market amounted to RMB100 million, the interest we paid for inter-bank borrowings amounted to RMB0.1 million, and the dividends we paid to our shareholders during the period amounted to RMB395.6 million.

We had net cash used in financing activities of RMB290.1 million in 2015 because of dividends paid to our shareholders during the period.

We had net cash used in financing activities of RMB701.1 million in 2014 because of dividends paid to our shareholders during the period.

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Current Assets and Liabilities

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2014	2015	2016	May 31,	September 30,
				2017	2017
	(RMB in thousands)				
Current assets					
Cash and bank balance	387,556	481,697	274,486	156,921	203,215
Financial assets at fair value					
through profit or loss	403,066	393,324	305,475	394,658	471,719
Financial assets purchased under					
agreements to resell	595,800	423,580	298,900	619,900	326,600
Loans to customers	1,231,003	2,107,118	914,797	1,434,851	2,566,574
Investments classified as loans and					
receivables	69,972	50,744	137,200	151,851	248,116
Trustee's remuneration receivable .	769,375	671,119	203,089	403,946	177,485
Interest receivable	51,232	77,756	29,135	110,019	68,050
Other current assets	51,358	19,458	448,651	362,976	315,985
Total current assets	3,559,362	4,224,796	2,611,733	3,635,122	4,377,744
Current liabilities					
Short-term borrowings	–	–	500,000	300,000	60,000
Salary and welfare payable	16,755	18,001	38,182	53,712	68,803
Net assets attributable to other					
beneficiaries of consolidated					
structured entities	838,068	1,213,402	179,894	790,980	1,261,833
Income tax payable	294,752	343,638	68,439	116,881	159,239
Dividend payable	–	–	–	254,212	4,048
Other current liabilities	116,288	260,308	126,261	61,730	90,592
Total current liabilities	1,265,863	1,835,349	912,776	1,576,975	1,644,515
Net current assets	2,293,499	2,389,447	1,698,957	2,058,147	2,733,229

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Our current assets consist primarily of the current portion of our loans to customers, financial assets at FVTPL, cash and bank balance, trustee's remuneration receivable and financial assets purchased under agreements to resell. Our current liabilities consist primarily of the current portion of net assets attributable to other beneficiaries of consolidated structured entities and tax payable.

From July to September 2017, we paid cash dividends in the aggregate amount of RMB250.2 million to our shareholders, which were declared in April 2017 and reflected in our consolidated net tangible assets as of May 31, 2017.

Our net current assets, the difference between total current assets and total current liabilities, have remained positive during the Track Record Period.

INDEBTEDNESS

We do not rely on bank borrowings in the ordinary course of our business and did not incur any borrowing or other indebtedness as of December 31, 2014, 2015, 2016, May 31, 2017 and September 30, 2017 except as described below.

As a trust company in China, we are not allowed to incur any debt in operating our business other than through inter-bank borrowings or otherwise allowed by the CBRC. In November 2016, we obtained a short-term loan from the inter-bank market in the principal amount of RMB100 million with interest rate of 3.58% per annum and fully repaid such loan in the same month. To further expand our proprietary business, we obtained two loans from China Trust Protection Fund Co., Ltd. in the principal amount of RMB200 million and RMB300 million with interest rate of 6.3% per annum and 5.8% per annum in June 2016 and August 2016, respectively. Each of these two loans has a term of 12 months but may be repaid after 9 months from the date of the loan. China Trust Protection Fund Co., Ltd. used its proprietary fund to provide these loans to us. In April and August 2017, we repaid the loans in the principal amount of RMB200 million and RMB300 million borrowed from China Trust Protection Fund Co., Ltd. in June and August 2016, respectively, together with interests. We subsequently obtained another loan from China Trust Protection Fund Co., Ltd. in the principal amount of RMB60 million with an interest rate of 6.6% per annum in September 2017. The loan has a term of ten months. Therefore, as of September 30, 2017, the Company has a short-term borrowing balance of RMB60 million remaining unpaid.

We do not have any unutilized banking facilities.

Our Directors have confirmed that, there has not been any material change in our indebtedness since September 30, 2017 to the Latest Practicable Date.

Other than described above, as of September 30, 2017 or the Latest Practicable Date, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

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CAPITAL EXPENDITURE

Our capital expenditures principally comprise expenditures for the purchase of property and equipment, intangible assets and other long-term assets. The following table below sets forth our capital expenditure for the period indicated:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
	(RMB in thousands)				
Purchase of property and equipment, intangible assets and other long-term assets	12,440	70,033	99,260	386	129

A substantial portion of our capital expenditure in 2014 and 2015 was used for prepayments for the construction of two office buildings which we originally planned to purchase from an independent third party upon the completion of the construction. We funded these expenditures primarily with cash generated from our operations. Our capital expenditures in 2016 was used for purchase of office space, which is part of the office building that has already been used as our headquarters and such transaction does not constitute a purchase of new office building discouraged by the government, from Shandong Luxin Energy Investment & Management Co., Ltd. and purchase of other fixed assets and intangible assets. Our capital expenditures in the five months ended May 31, 2017 was used for purchase of software and electric appliances. We funded these capital expenditures with cash generated from our operations.

CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

The following table below sets forth our capital commitments as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Contracted but not yet incurred	2,677	3,595	2,175	2,836
Total	2,677	3,595	2,175	2,836

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We have funded all of our capital commitments by cash generated from our operations. As of December 31, 2014, 2015, 2016 and May 31, 2017, our capital commitments were mainly attributable to purchase intangible assets consisting mainly of software.

Operating Lease Commitments

We lease our office spaces from third parties under non-cancellable operating leases. The following table below sets forth our future minimum lease payments under irrevocable rental contracts as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Within one year	1,582	7,513	492	544
Between one year and five years	894	1,489	909	616
More than five years	—	—	—	—
Total	2,476	9,002	1,401	1,160

Legal Proceedings

As of December 31, 2014, 2015, 2016 and May 31, 2017, we believe the legal proceedings we were involved as an interested third party would not have a material impact on our financial position or operations. Please see “Business — Legal And Regulatory Proceedings” for more details about the pending lawsuits that we were involved in during the Track Record Period.

Contingent Liabilities

As of September 30, 2017, we did not have any material contingent liabilities or guarantees.

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RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in Note 36 to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary course of business with normal commercial terms between the relevant parties. Among others, we disposed of certain loan assets of our trust schemes to our related parties, Lucion Group and Shandong Provincial Financial Asset Management Co., Ltd. Please further refer to Note 18 (c) to the Accountant's Report in Appendix I for such related party transactions. Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or cause our historical results to not reflect our future performance.

As disclosed in note 36(e)(ii) of the Accountants' Report in Appendix I to this prospectus, as of May 31, 2017, balances due from Luxin Financial, First-trust FMC and Lucion Group amounted to approximately RMB100.2 million, RMB6.4 million and RMB9.5 million, respectively. Such amount due from Luxin Financial and Lucion Group were settled in July 2017 while the amount due from First-trust FMC was settled in June 2017. The amount due to Lucion Group (approximately RMB0.08 million) will be settled upon Listing.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts.

NET CAPITAL REQUIREMENTS

CBRC issued the *Administrative Measures on Net Capital of Trust Companies*, or the Net Capital Measures, which adopted two key measures to regulate capital of trust companies, which are Net Capital and total risk-based capital.

Net Capital is defined as our net assets minus (i) risk deduction for each type of our assets, (ii) risk deduction for our contingent liabilities and (iii) other risk deductions determined by CBRC. The risk deductions are determined by CBRC.

Total risk-based capital is defined as the sum of (i) risk-based capital of our proprietary business, (ii) risk-based capital of our trust business, and (iii) risk-based capital of our other business, if any. The risk-based capital is calculated by applying a risk factor to our proprietary assets or trust assets used in the relevant business. The risk factors for our own assets used in our proprietary business range from 0% (for assets held in cash or cash equivalents) to 50% (for assets held in securities derivative products other than stock index futures). The risk factors for trust assets used in our trust business range from 0.1% (for trust assets held in low-risk investment such as fixed income products traded in open markets) to 9.0% (for high-risk investments such as using funds from banks' wealth management schemes to grant loans).

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We monitor our net capital and total risk-based capital regularly and report to the CBRC on a quarterly basis. Our net capital and relevant ratio as reported to the CBRC as of December 31, 2014, 2015, 2016 and June 30, 2017 are as follows:

	As of December 31,			As of June 30,	CBRC Requirements
	2014	2015	2016	2017	
	(RMB in millions except percentages)				
Net Capital	3,962.5	4,324.9	5,524.4	6,040.9	≥ 200.0
Net Capital to total risk-based capital	153.0%	263.5%	251.2%	226.8%	≥ 100%
Net Capital to net assets	91.2%	86.3%	88.1%	88.9%	≥ 40%

During the Track Record Period, we have complied with all of the above requirements and have not received any warnings or penalties from the CBRC in this regard.

KEY FINANCIAL RATIO

The following table sets forth the key measurements of our profitability during the Track Record Period:

	Year ended December 31,			Five months ended May 31,	
	2014	2015	2016	2016	2017
Operating margin ⁽¹⁾	72.8%	75.4%	81.1%	93.8%	76.5%
Net profit margin ⁽²⁾	55.8%	60.2%	62.8%	74.9%	61.1%
Return on equity ⁽³⁾	21.7%	18.9%	13.5%	4.8%	6.2%
Return on assets ⁽⁴⁾	13.5%	13.6%	9.9%	3.6%	4.3%

Notes:

- (1) Operating margin = Operating profit before income tax for the year or period/total operating income for the year or period.
- (2) Net profit margin = Net profit attributable to shareholders of the Company for the year or period/total operating income for the year or period.
- (3) Return on equity = Net profit attributable to shareholders of the Company for the year or period/simple average balance of total equity as of the beginning and end of the year or period.
- (4) Return on assets = Net profit attributable to shareholders of the Company for the year or period/simple average balance of total assets as of the beginning and end of the year or period.

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Operating margin and net profit margin. Our operating margin decreased from 93.8% in the five months ended May 31, 2016 to 76.5% in the five months ended May 31, 2017 and our net profit margin decreased from 74.9% in the five months ended May 31, 2016 to 61.1% in the five months ended May 31, 2017 primarily because the increase in our total operating expenses, which increased by 173.3%, outpaced the increase in our total operating income, which increased by 73.3%, from the five months ended May 31, 2016 to the five months ended May 31, 2017. The significant increase in total operating expenses was primarily due to (i) the substantial decrease in negative change in net assets attributable to other beneficiaries of consolidated structured entities as our consolidated securities investment trust schemes incurred significantly less net losses that were attributable to third-party beneficiaries, (ii) substantial increase in interest expenses due to interests payable to China Trust Protection Fund Co., Ltd. and increase in expected returns attributable to third-party beneficiaries of our consolidated financing trusts (after offsetting the impairment losses attributable to such third-party beneficiaries); and (iii) the significant increase in impairment losses on financial assets as a result of significant increase in net charge of impairment allowance on loans to customers. The increase in total operating income was primarily due to increase in fee and commission income as a result of an increase in our trustee's remuneration and increase in net changes in fair value on financial assets at FVTPL as a result of changes in the Chinese stock markets.

Our operating margin increased from 75.4% in 2015 to 81.1% in 2016 and our net profit margin increased from 60.2% in 2015 to 62.8% in 2016 primarily due to the significant decrease in impairment losses on financial assets as a result of significant decrease in net charge of impairment allowance on loans to customers, which was partially offset by significant increase in our staff costs. We recorded significantly less impairment charge on loans to customers in 2016 because most of the impairment of loans occurred in 2014 and 2015 and substantial amount of individually assessed impairment allowance was made in these two years.

Our operating margin increased from 72.8% in 2014 to 75.4% in 2015 and our net profit margin increased from 55.8% in 2014 to 60.2% in 2015 primarily due to the increase in our share of profit of Fullgoal Fund Management Co., Ltd. whose profit increased from 2014 to 2015 primarily due to the growth in the Chinese stock markets, and such increase was partially offset by significant increase in impairment losses on financial assets as a result of significant increase in net charge of impairment allowance on loans to customers from 2014 to 2015.

Return on equity. Our return on equity increased from 4.8% in the five months ended May 31, 2016 to 6.2% in the five months ended May 31, 2017 due to 41.4% increase in net profit attributable to shareholders of our Company. For a detailed discussion of such increase, please see “— Results of Operations” above. Our return on equity decreased from 18.9% in 2015 to 13.5% in 2016 primarily due to 22.5% decrease in net profit attributable to shareholders of our Company. For a detailed discussion of such decrease, please refer to “— Results of Operations” above. Our return on equity decreased from 21.7% in 2014 to 18.9% in 2015 primarily because two of our shareholders made capital

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contributions of RMB1,127.4 million to us in 2014 and the resulted increase in our average equity in 2015 was only partially offset by 9.1% increase in net profit attributable to shareholders of our Company in 2015.

Return on assets. Our return on assets increased from 3.6% in the five months ended May 31, 2016 to 4.3% in the five months ended May 31, 2017 due to 41.4% increase in net profit attributable to shareholders of our Company. For a detailed discussion of such increase, please see “— Results of Operations” above. Our return on assets decreased from 13.6% in 2015 to 9.9% in 2016 primarily due to 22.5% decrease in net profit attributable to shareholders of our Company. For a detailed discussion of such decrease, please refer to “— Results of Operations” above. Our return on assets only slightly increased from 13.5% in 2014 to 13.6% in 2015 because the 9.1% increase in net profit attributable to shareholders of our Company from 2014 to 2015 was largely offset by increase in our average total assets during the period primarily due to the capital contributions by two of our shareholders in 2014 as well as the consolidation of more trust schemes.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. See “Risk Management” and note 39 of the Accountant’s Report in Appendix I to this prospectus for an overview of our risk management processes. Our activities expose to a variety of financial risks including: credit risk, market risk (primarily price risk and interest rate risk) and liquidity risk.

Credit Risk

Credit risk refers to the risk that our clients and counterparties fail to fulfil contractual obligations. Our credit risk arises from our trust business and proprietary business.

The credit risk of our trust business mainly refers to the risk that we, as the trustee, fail to receive our due remuneration which is agreed in the trust contract with the trustor. Pursuant to the terms of trust contract, as long as we fulfil our duties stated in trust contract in our capacity as trustee, we are entitled to receive the remuneration specified in the trust contract. We have the priority over the trust beneficiaries to receive a fixed portion remuneration from the trust assets, which is the major source of our income from the trust business.

Some of our trust schemes are financing trust schemes. Under such schemes, the failure of fulfilling the repayment obligations by our counterparty clients, or the ultimate borrowers, will negatively affect our entitlement to receive our fixed and floating remuneration as stated in the trust contract. We assess and manage the borrower’s default risk of our financing trust schemes through initial due diligence, approval, and monitoring over the borrowers pursuant to the trust contract. The measures taken by us to mitigate the

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default risk by borrower include mainly obtaining third party guarantee and collateral as credit enhancements. In many cases where such default by borrower arises, we are also required by trust contract to act on the best interests of the beneficiaries by taking necessary resolution and disposition measures to minimize the loss of trust assets. However, we do not guarantee the fixed return or compensate any investment loss to the beneficiaries of the trust, and the PRC laws and regulations also prohibit us from doing so. While we have no legal obligation to provide liquidity or other supports to any troubled trusts, we may use our own funds to facilitate the distributions to other beneficiaries at maturity of some of our actively managed trust schemes, after evaluating the likelihood of ultimate repayments from borrower or other sources and considering other factors such as potential reputational harm to us.

Our proprietary business mainly includes our own debt and equity investments. Our management formulate our annual investment allocation plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board of Directors. According to such plan, we invest in certain trust schemes established and managed by ourselves, listed or unlisted equity securities, mutual funds, loans and other asset management products. For investments in our own trust schemes, we assess the significance of our variable returns from our involvement in these trust schemes and determine whether these trust schemes need to be consolidated or not. The underlying assets of the consolidated trust schemes are reported in the same balance sheet line items as our proprietary assets.

Maximum Credit Risk Exposure

The following table represents a worst-case scenario of credit risk exposure to us as of December 31, 2014, 2015, 2016 and May 31, 2017 without taking into account of any related collateral or other credit enhancements:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Cash and cash equivalents	387,556	481,697	274,486	156,921
Financial assets purchased under agreements to resell	595,800	423,580	298,900	619,900
Loans to customers	3,115,297	3,076,432	4,048,235	4,741,861
Investments classified as loans and receivables	163,072	80,144	180,643	256,838
Trust Industry Protection Fund	–	159,910	307,160	466,729
Other financial assets	835,960	762,462	473,502	474,178
Total	5,097,685	4,984,225	5,582,926	6,716,427

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Loans to customers account for 61.1%, 61.7%, 72.5% and 70.6% of our total credit risk exposures as of December 31, 2014, 2015, 2016 and May 31, 2017. Other major credit risk exposures include investments classified as loans and receivables, amount receivable from borrowers for subscription of contribution to the Trust Industry Protection Fund and trust remuneration receivables and other receivables included in other financial assets.

Credit Risk from Loans to Customers

The following table analyzes our loans to customers by overdue and impaired status as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Neither overdue nor impaired	3,019,193	2,616,786	3,985,800	4,608,280
Overdue but not impaired	–	–	–	–
Impaired	377,218	976,006	273,891	413,891
Gross	3,396,411	3,592,792	4,259,691	5,022,171
Less: Collective impairment allowances	(60,384)	(52,336)	(66,716)	(92,166)
Individual impairment allowances	(220,730)	(464,024)	(144,740)	(188,144)
Total allowance	(281,114)	(516,360)	(211,456)	(280,310)
Net	3,115,297	3,076,432	4,048,235	4,741,861

Loans to customers neither overdue nor impaired

88.9%, 72.8%, 93.6% and 91.8% of our gross loans to customers were neither overdue nor impaired as of December 31, 2014, 2015, 2016 and May 31, 2017, respectively. They can be further analyzed by the type of security as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Collateralized loans	1,821,113	1,626,786	2,712,520	2,905,000
Pledged loans	809,780	850,000	437,280	757,280
Guaranteed loans	148,300	140,000	836,000	946,000
Unsecured loans	240,000	–	–	–
Gross	3,019,193	2,616,786	3,985,800	4,608,280
Less: Collective impairment allowances	(60,384)	(52,336)	(66,716)	(92,166)
Net	2,958,809	2,564,450	3,919,084	4,516,114

Loans to customers overdue but not impaired

We did not have any other overdue but not impaired loans as of December 31, 2014, 2015, 2016 and May 31, 2017.

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Loans to customers that are impaired

All of our impaired loans to customers were held by our consolidated trust schemes as a result of liquidity and other supports provided by us according to our risk resolution plans for such consolidated trust schemes, or proprietary investment made by us in the trust scheme. The gross amount, individual impairment allowance and fair value of collateral held for these impaired loans are as follows:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Loans to customers	377,218	976,006	273,891	413,891
Less: Individual impairment allowances	(220,730)	(464,024)	(144,740)	(188,144)
Net	156,488	511,982	129,151	225,747
Fair value of collateral	349,347	601,440	133,868	316,110

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the current collateral and the market conditions.

Other Major Credit Risk Exposures

The following table sets forth our other major credit risk exposure as of the dates indicated:

	As of December 31,			As of May 31,
	2014	2015	2016	2017
	(RMB in thousands)			
Investments classified as loans and receivables	163,072	80,144	180,643	256,838
Trust Industry Protection Fund	–	159,910	307,160	466,729
Due from Government Related Entity A	–	–	100,000	–
Due from Luxin Financial	–	–	100,164	100,164
Due from Lucion Group	–	–	9,530	9,530
Trustee's remuneration receivable	769,375	671,119	203,089	403,946
Total	932,447	911,173	900,586	1,237,207

None of the above receivables were overdue or impaired as of December 31, 2014, 2015, 2016 and May 31, 2017.

Market Risk

We take on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from price risk, interest rates risk and foreign exchange risk.

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Price Risk

Certain financial assets such as financial assets at FVTPL and the available-for-sale financial assets are measured at fair values at the end of each reporting periods. We are exposed to price risks that may cause losses to us as a result of changes in market prices.

The price risk of these financial assets may arise due to changes in market prices. These changes may be caused by the factors relating to the financial instruments themselves or the issuers of the financial instruments, and they also may be caused by market factors.

Our policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors.

The following tables illustrate the potential impact of an increase or decrease of one percent in price of financial assets at FVTPL and available-for-sale financial assets measured at fair value on our operating profit before income tax and equity:

<u>Profit before income tax</u>	<u>For the year ended December 31,</u>			<u>For the five months ended May 31,</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	(RMB in thousands)			
+1 percent	4,031	3,933	3,055	3,947
-1 percent	(4,031)	(3,933)	(3,055)	(3,947)
<u>Equity impact before income tax</u>	<u>As of December 31,</u>			<u>As of May 31,</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	(RMB in thousands)			
+1 percent	12,551	14,059	11,717	12,668
-1 percent	(12,551)	(14,059)	(11,717)	(12,668)

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Interest Rate Risk

Interest rate risk refers to the possibility that our financial position and cash flow fluctuates due to changes in market interest rate. The changes in market interest rate may lead to increase or decrease in our interest income, which will impact the amount of our total profit and owners' equity. Our interest rate risk management is mainly focused on cash flow interest rate risk management.

As of December 31, 2014, 2015, 2016 and May 31, 2017, our main interest bearing assets include cash and bank balance and financial assets held under reverse repurchase agreements which accounts for 13.4%, 10.8%, 6.6% and 7.7% of our total assets, respectively. Our interest rate risk exposures from holding these assets are not significant.

As of May 31, 2017, our main interest bearing liability include a RMB300 million short-term borrowing from China Trust Protection Fund Co., Ltd., which amounted to 8.3% of our total liabilities.

We also invest in certain financing trust schemes established and managed by ourselves. The underlying assets of these financing trust schemes are mainly loans to customers which are priced at fixed rate through their maturities. The beneficiaries of these trust schemes including us are entitled to an expected investment return at a fixed rate throughout the whole investment period. We are not subject to significant risk from the volatility of market interest rate or changes in benchmark interest rate.

Foreign Exchange Risk

Our business is mainly operated in China and settled in Renminbi. We have performed analysis and concluded that the foreign exchange risk to us is not material.

Liquidity Risk

Liquidity risk is the risk that we may not be able to generate sufficient cash resources to settle our obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

We forecast our cash flows and monitor our short-term and long-term capital needs to ensure we have sufficient cash reserve and financial assets that are readily convertible into cash. We hold sufficient unrestricted cash at bank and on hand to satisfy the capital need for our daily operations. Other than the outstanding short-term borrowings from China Trust Protection Fund Co., Ltd. as disclosed under “— Indebtedness”, we have no debt or borrowing from other financial institutions.

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The majority of our liabilities on the consolidated balance sheet are distribution payables to other beneficiaries of our consolidated trust schemes as a result of consolidation of these trust schemes. We have no contractual obligation to provide any liquidity support to all of the trust schemes established and managed by us. Our management is of the view that we are not subject to significant liquidity risk given the nature of our business activities.

DIVIDEND

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. We have not adopted any policy for future dividend distribution. Any proposed distribution of dividends shall be formulated by our Board of Directors and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board of Directors may consider important.

According to the applicable laws and regulations and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allowances:

- recovery of the last year's losses, if any;
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the cumulative amount reaches 50% of our registered capital, no further allocations to this statutory reserve will be required;
- allocations to the trust compensation reserve of not less than 5% of our profit after tax, and, when the cumulative amount reaches 20% of our registered capital, no further allocations to this reserve will be required; and
- allocations, if any, to a discretionary common reserve fund that are approved by our shareholders in a Shareholders' meeting.

According to the requirement of the MOF, we shall maintain a general reserve, which is an integral part of our reserves, through appropriation of net profit after tax, of not less than 1.5% of the balance of our risk assets. After completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRSs, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and made available for distribution in subsequent years.

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In 2014, 2015 and 2016, we paid cash dividends of RMB701.1 million, RMB290.1 million and RMB395.6 million to our Shareholders, respectively. In April 2017, we declared cash dividends of RMB254.2 million to our Shareholders (which have been reflected in our consolidated net tangible assets as of May 31, 2017), among which RMB250.2 million was paid from July to September 2017 and the remaining RMB4.0 million has not paid as of the Latest Practicable Date. According to resolution adopted by our Shareholders on May 4, 2016, our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders. However, dividends we have declared in the past may not be indicative of our future dividend payments, and we have not adopted any dividend policy for future payments.

DISTRIBUTABLE RESERVES

As of May 31, 2017, our Company had RMB2,523.9 million in retained earnings, available for distribution to our Shareholders.

LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB108.6 million. Listing expenses of approximately RMB12.9 million were incurred on or before May 31, 2017, of which RMB2.2 million was charged to our consolidated statements of comprehensive income, while the remaining amount of RMB10.7 million was recorded as deferred listing expenses and will be subsequently charged to equity upon completion of the Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB95.7 million after May 31, 2017, of which RMB5.2 million will be charged to our consolidated statements of comprehensive income, and RMB90.5 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2017.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on May 31, 2017 and based on the audited consolidated net tangible assets of our Company as of May 31, 2017 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

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This unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of May 31, 2017 or at any future date.

	Audited Consolidated Net Tangible Assets of the Group Attributable to Shareholders of the Company as of May 31, 2017	Estimated Net Proceeds from the Global Offering	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Shareholders of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share	
	Note 1 RMB'000	Note 2 RMB'000	RMB'000	Note 3 RMB	Note 3 HK\$
Based on an Offer Price of HK\$4.46 per share	6,480,603	2,125,535	8,606,138	3.33	3.92
Based on an Offer Price of HK\$5.43 per share	6,480,603	2,597,003	9,077,606	3.51	4.13

Notes:

- The audited consolidated net tangible assets attributable to the owners of the Company as of May 31, 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group as of May 31, 2017 of RMB6,484,547,000 with an adjustment for the intangible assets as of May 31, 2017 of RMB3,944,000.
- The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$4.46 and HK\$5.43 per H Share after deduction of the underwriting fees and other related expenses (excluded VAT) paid or payable by us (excluding listing expenses of approximately RMB2,177,000 which have been accounted for in the consolidated statement of comprehensive income prior to May 31, 2017).
- The unaudited pro forma adjusted net tangible assets per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis of 2,588,250,000 Shares are in issue assuming that the Global Offering has been completed on May 31, 2017, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be allotted, issued or repurchased by the Company pursuant to the general mandate.
- No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2017.
- For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.18. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that there is no event which could materially affect the information shown in our consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus since May 31, 2017, and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

RISK MANAGEMENT

OVERVIEW

We have been devoted to establishing risk management and internal control systems consisting of objectives, principles, organizational framework, procedures and methods against key risks that we consider to be appropriate for our business operations, and we have developed a comprehensive risk management system covering all aspects of our business operation.

Our comprehensive risk management system is designed to achieve the following general objectives:

- to provide support for the standardization and improvement of our business management and decision-making process, ensure the effective execution of our strategies and the smooth operation of our business, and avoid and/or reduce losses that may be caused by risks;
- to ensure that risks are brought within acceptable ranges based on our strategic goals;
- to establish crisis management plans targeting various major risks in order to minimize losses in case of any major risk and/or human error;
- to establish effective internal and external reporting systems in order to ensure the timeliness and accuracy of our business and financial reporting; and
- to ensure that we comply with all relevant laws and regulations and regulatory requirements of various government authorities.

Our overall risk management is guided by the following five principles:

- **Strategy-Orientated Approach:** We should view our risk management improvement as an integral part of our overall business strategy which would provide substantial support towards the realization of our strategic goals;
- **Check and Balance:** Our comprehensive risk management system should create checks and balances within our management structure and organizational framework. Through designation of different roles and responsibilities of different internal organizations and departments and design of our operation flow, we should create clear division of rights and duties among our different internal organizations and departments and sufficient supervision among themselves;

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- **Multi-Layer and Multi-Dimensional Safeguards:** Risk management is a task and duty of all levels within our corporate and management structure, and thus risk management measures should be applied at the Board of Directors, senior management, middle management and business operation levels and different functional departments should be involved from different perspective in our risk management process and thus should create multiple dimensional safeguards against risks;
- **Total Integration:** Our comprehensive risk management framework should be sufficiently integrated with our other management frameworks. Risk management elements should be integrated into our organizational functions, procedures, and information systems, allowing risk management to be effectively implemented in our daily operations; and
- **Risk-Benefit Balance:** When selecting risk control measures, we should always balance costs of the measures against their effects on risk reduction and adopt measures that can best reflect the risk profile of the relevant business.

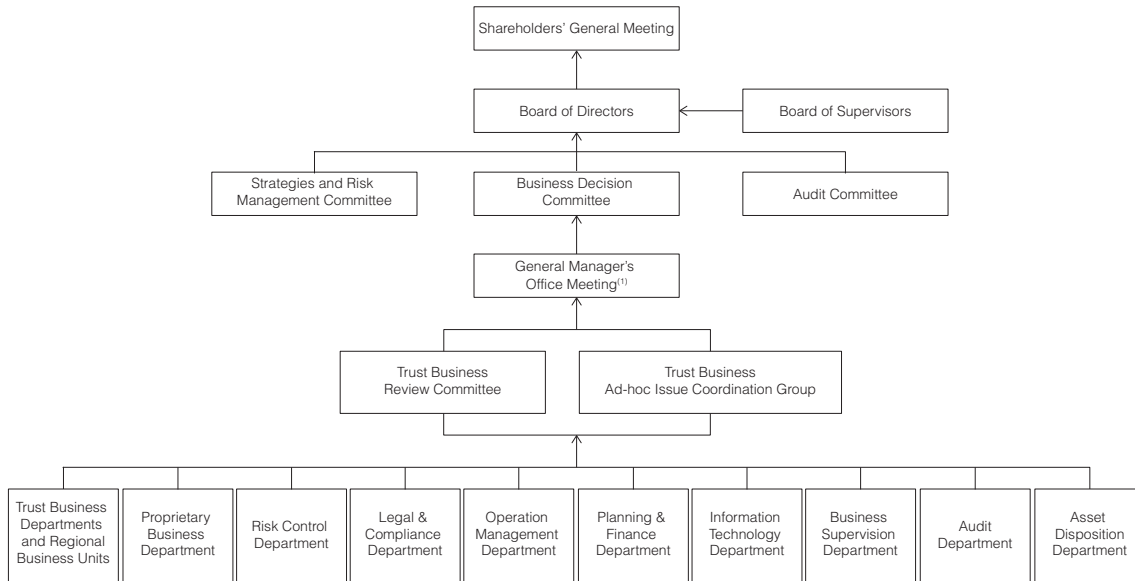
Our sophisticated risk management culture, object-oriented and sound risk management system and mechanisms ensure the sustainable and stable operation of our business and provide a solid basis for our identification and management of risks involved in our operational business.

OUR RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

Our integrated risk management organizational structure is included in every level of our corporate governance, including (1) Shareholders' general meeting; (2) the Board of Directors and its Strategies and Risk Management Committee, Audit Committee and Business Decision Committee; (3) the Board of Supervisors; (4) General Manager's Office Meeting; (5) Trust Business Review Committee; (6) Trust Business Ad-hoc Issue Coordination Group and (7) other functional departments, including the Risk Control Department, Legal & Compliance Department, Operation Management Department, Planning & Finance Department, Information Technology Department, Business Supervision Department, Audit Department and Asset Disposition Department. Finally, all of our Trust Business Departments (including Regional Business Units) are required to assume primary risk management responsibilities.

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The organizational structure of our risk management system is as follows:



Note:

- (1) Include all of our senior management members, including our General Manager, Vice General Managers, Chief Risk Officer and Chief Financial Officer.

Shareholders Level

- *Shareholders' General Meetings*

We accept supervision from our Shareholders and encourage all of our Shareholders to provide advice and feedback on our risk management and internal control matters. Our Shareholders are involved in our risk management function mainly by selecting and appointing our Directors and Supervisors at shareholders' meetings and delegating the relevant authority to our Board of Directors and Board of Supervisors.

Board of Directors Level

- *Board of Directors*

The Board of Directors assumes responsibility for establishing and continuously enhancing our risk management, internal control and overall compliance. Our Board of Directors also includes independent directors who are expert in their respective professional fields. The Board of Directors has established the Strategies and Risk Management Committee, Audit Committee and Business Decision Committee to assume different responsibilities.

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- *Strategies and Risk Management Committee*

The Strategies and Risk Management Committee consists of three members, being Ms. Wang Yingli, Mr. Xiao Hua and Mr. Wan Zhong. Ms. Wang Yingli has been appointed as the chairperson of the Strategies and Risk Management Committee. For detailed experience and qualification about these committee members, please refer to the section entitled “Directors, Supervisors and Senior Management”. The principal risk management related responsibilities of the Strategies and Risk Management Committee include:

- o identifying the significant risks of our businesses;
- o examining the soundness of our risk management system and the effectiveness of our policies, measures and workflows;
- o approving our risk management strategies; and
- o reviewing and monitoring our compliance with applicable laws and regulations.

- *Audit Committee*

The audit committee consists of three members, namely Mr. Jin Tongshui, Mr. Ding Huiping and Ms. Meng Rujing. Mr. Ding Huiping has been appointed as the chairperson of the Audit Committee. For detailed experience and qualification about these committee members, please refer to the section entitled “Directors, Supervisors and Senior Management”. The principal risk management related responsibilities of the Audit Committee include:

- o reviewing our business and financial operations;
- o supervising the professional action of our Directors and senior management members; and
- o engaging external audit institutions or advisory bodies if necessary.

- *Business Decision Committee*

This committee is required to have at least three members, including (i) the Chairperson of our Board of Directors, currently Ms. Wang Yingli, who serves as the chairperson of the committee, and (ii) at least two other committee members that are financial industry professionals from inside or outside our Company, who are currently Mr. Wan Zhong and Mr. Jin Tongshui. For detailed experience and qualification about these committee members, please refer to the section entitled “Directors, Supervisors

RISK MANAGEMENT

and Senior Management”. The principal risk management related responsibilities of Business Decision Committee include:

- o examining and approving collective trusts approved by the General Manager’s Office Meeting;
 - o examining and approving significant individual trusts approved by the General Manager’s Office Meeting;
 - o examining and approving certain proprietary business including investments in financial products and proprietary loans; and
 - o examining and approving disposal plans of projects at risk invested by collective trusts and significant individual trusts approved by the General Manager’s Office Meeting.
- *Board of Supervisors*

The Board of Supervisors supervises the risk management work conducted by the Board of Directors under our overall corporate governance framework. The Board of Supervisors also supervises the fulfillment of responsibilities by our senior management and other relevant departments and personnel, reviews and assesses the major risks we faced, and makes risk management suggestions and proposals.

Senior Management Level

Our senior management includes our General Manger, Vice General Managers, Chief Risk Officer and Chief Financial Officer. Our Chief Risk Officer is a dedicated senior management position that we created to assist our General Manager in performing our daily risk management functions. Our current Chief Risk Officer, namely Mr. Fu Jiguang, has over 24 years of experience in the trust and financial industries and was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東經濟專業職務高級評審委員會) in October 2002. For more detailed experience and qualification about Mr. Fu and other senior management members, please refer to the section entitled “Directors, Supervisors and Senior Management”. Our Chief Risk Officer reports regularly to the Strategies and Risk Management Committee of our Board of Directors. Our senior management performs their duties mainly through the General Manager’s Office Meeting, Trust Business Review Committee and Trust Business Ad-hoc Issue Coordination Group.

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- *General Manager's Office Meeting*

Our General Manager's Office holds regular weekly meetings which are typically chaired by our General Manager. The General Manager may also call for extraordinary meetings when he or she deems necessary. In addition to the General Manager, our Vice General Managers, Chief Risk Officer, Chief Financial Officer and department heads in charge of the matters to be discussed at the proposed meeting shall attend the General Manager's Office meetings. The principal responsibilities of the General Manager's office meetings in connection with risk management include:

- o approving our trust business and proprietary business;
- o formulating our operational regulations, rules and workflows;
- o supervising our operational activities and work arrangement; and
- o undertaking specific tasks in relation to our internal management.

- *Trust Business Review Committee*

In order to coordinate the views of our Chief Risk Officer and different functional departments and encourage them to share their views with each other, we established the Trust Business Review Committee, which consists of our Chief Risk Officer and the heads of our various functional departments, to discuss and review all of our collective trusts and some of our individual trusts. For additional information including composition of the Trust Business Review Committee, see “— Risk Management in Our Trust Business — Internal Approval Process — Collective Trust — 1st Meeting — Trust Business Review Committee”.

- *Trust Business Ad-hoc Issue Coordination Group*

To facilitate prompt response to issues arising from our actively managed trusts, we have established the Trust Business Ad-hoc Issue Coordination Group, which is a working group consisting of the relevant responsible Vice General Managers, Chief Risk Officer, the trust manager involved, the head of the relevant trust business department, the head of the Risk Control Department, the head of the Legal and Compliance Department and the head of the Asset Disposition Department. For additional information, see “— Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management”.

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Middle Management Level

- *Trust Business Departments (including Regional Business Units)*

Our Trust Business Departments (including Regional Business Units), or Trust Business Departments, are the first line of defense in our comprehensive risk management system and also play an important role in every step of our comprehensive risk management system. The principal responsibilities of our Trust Business Departments in connection with risk management include:

- performing due diligence on proposed projects and preparing due diligence reports;
- lodging application and submitting materials to the Trust Business Review Committee, General Manager's Office Meeting and other relevant departments at different stages of the approval process; and
- continuously revising the proposed plan according to comments and suggestions of other departments, the Trust Business Review Committee, General Manager's Office Meeting and Business Decision Committee.

- *Proprietary Business Department*

Our Proprietary Business Department is responsible for the daily operation of our proprietary business and its responsibilities mainly include:

- drafting the operational regulations and workflows of the proprietary business;
- drafting the annual asset allocation plan and executing it following the approval from the Board of Directors; and
- conducting proprietary business.

- *Risk Control Department*

Our Risk Control Department reports to our Chief Risk Officer and General Manager. It also provides support to the Strategies and Risk Management Committee of our Board of Directors. The Risk Control Department plays the key role in our risk management at the functional department level. The principal responsibilities of our Risk Control Department include:

- making proposals for improvement to our comprehensive risk management system;

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- o supervising and guiding the risk management-related works conducted by other functional departments;
 - o providing suggestions and comments on collective and individual trusts, and proprietary business;
 - o preparing annual report of our comprehensive risk management system;
 - o coordinating our daily risk management-related work; and
 - o accessing the risk management-related work conducted by other functional departments and issuing assessment report.
- *Legal & Compliance Department*

As an integral part of our overall risk management, we attach great importance to our Legal & Compliance Department. We have formulated various compliance rules and policies and have taken a number of compliance initiatives to make sure that our Legal & Compliance Department performs its duty in our daily operation and continuously track the latest developments in relevant laws, regulations and policies, and, after considering our business conditions, timely submit proposals on the formulation and amendments of relevant internal regulations and policies to relevant departments.

The principal responsibilities of our Legal & Compliance Department include:

- o formulating and updating our compliance policies and internal regulations, and reviewing the compliance and legality of our organizational system, workflows and business;
- o providing compliance and legal advice to our business departments;
- o reviewing connected transactions of different types of business;
- o handling internal and external legal affairs;
- o reviewing various contracts of different types of business; and
- o cooperating with the Risk Control Department to manage risks.

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- *Information Technology Department*

Our Information Technology Department is responsible for establishing and improving our various information systems to standardize and automate our operating procedures and thereby reduce human errors, prevent fraud and increase the efficiency and effectiveness of our internal control system. We have already established various information systems and our Information Technology Department continues to receive feedback from our various other departments and improve our information systems and enhance our internal controls accordingly.

- *Operation Management Department*

The Operation Management Department's main responsibility is to ensure that all payments made from accounts of all of our trusts and all of our own accounts holding our proprietary funds are made fully in compliance with the terms of contracts we enter into with various parties both in our capacity as the trustee or for our own account. Our Planning & Finance Department will make payment only after receiving clearance from our Operation Management Department. The principal responsibilities of our Operation Management Department include:

- o approving all payments from trust fund accounts in accordance with the trust contract and contracts with counterparties;
- o distributing the interests of trust in accordance with the contract; and
- o managing the trading system of securities investment trust.

- *Planning & Finance Department*

Our Planning & Finance Department is responsible for developing our financial management and accounting related systems, and supervising the implementation of the relevant accounting and financial regulations and policies, and thus functions as part of our comprehensive risk management system.

Our Planning & Finance Department is responsible for opening, managing and canceling all accounts of our trusts as well as our own accounts. In addition, our Planning & Finance Department is the only department within our corporate structure that has the authorization to make payments from accounts of our trusts and our own accounts, and it will make a payment only after examining all necessary internal approvals including approval for the payment from our Operation Management Department.

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- *Business Supervision Department*

Our Business Supervision Department is mainly responsible for ex-post supervision of the projects in which our trusts have invested in or we have invested in using our proprietary assets. The main responsibilities of our Business Supervision Department include:

- conducting ex-post inspection of the projects in which our trusts have invested in or we have invested in using our proprietary assets;
- participating in the onsite monitoring of the relevant projects; and
- reporting its findings to our Trust Business Departments and Chief Risk Officer.

- *Audit Department*

Our Audit Department is responsible for auditing of business and operation and management matters of different functional departments under the leadership of the Audit Committee of the Board. The main responsibilities of our Audit Department include:

- formulating and implementing the annually internal audit plan;
- conducting internal audit and coordinating with the external audit institutions; and
- performing other duties as authorized by the Audit Committee.

- *Asset Disposal Department*

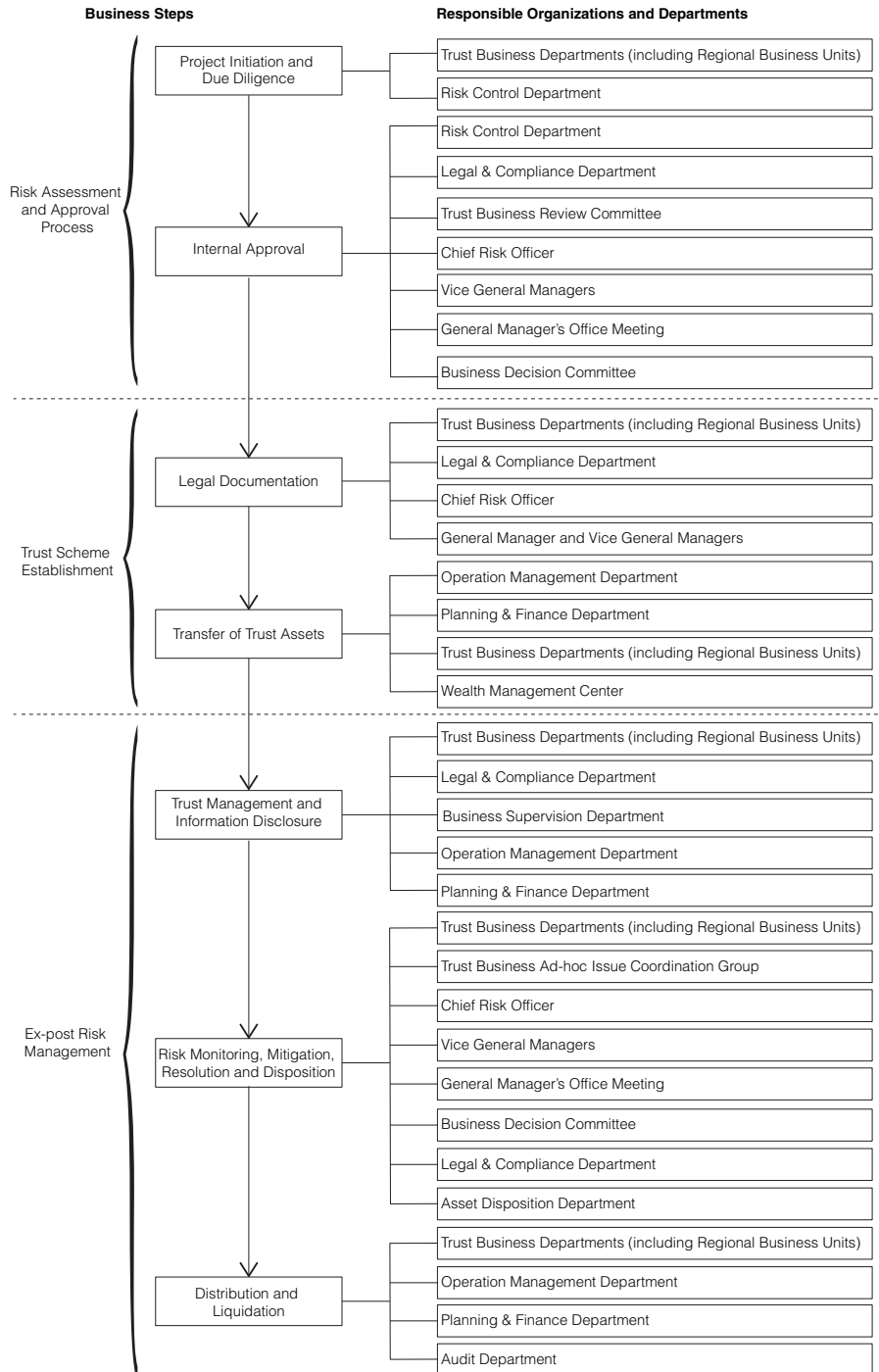
Our Asset Disposition Department is mainly responsible for the disposal, recovery, and realization of assets at risk, including:

- formulating the regulations and operational procedures for disposing project at risk;
- making periodic working arrangements and participating in communication and negotiation with the relevant parties including financing providers, guarantor, cooperative bank and asset management company;
- designing the disposal plan of project at risk and implementing the disposition plan approved by the Business Decision Committee;
- conducting the disposal of collateral, applying for property preservation and participating in civil litigation; and
- cooperating with the Trust Business Ad-hoc Issue Coordination Group.

RISK MANAGEMENT

RISK MANAGEMENT IN OUR TRUST BUSINESS

Our risk management measures are fully integrated into each step of our trust business. We have formulated and strictly implemented standardized risk management guidelines and an approval process covering all business steps in the trust business operation. The flow of our trust business and the internal organizations and departments involved in each step is illustrated as follows:



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Project Initiation and Due Diligence

Our various Trust Business Departments identify potential projects for our trusts. Unless the proposed trust will be an administrative management trust, we will conduct comprehensive and multi-perspective due diligence on the proposed projects and counterparties. We also conduct comprehensive and multi-perspective due diligence on the trustors of all of our trusts.

- ***Due Diligence on Proposed Projects and Counterparties***

Due diligence on the proposed projects focuses on the business model, operating scale, location, regulatory approval status, financial model, risk assessment and control measures, and related party transactions of the entities owning or managing such projects, as well as the industries which the proposed projects are in and their main products or services and growth prospects. Due diligence on the proposed counterparties focuses on their basic information, corporate history, shareholding structure, controlling shareholder, de facto control person, management, business and financial condition, contingent liabilities, factors affecting their cash flows and ability to repay indebtedness, reputation and credit worthiness, overall risks involved in their industries and their prior relationships with us. We require proposed counterparty clients to provide various types of corporate documents such as key licenses and verify the authenticity of these documents through appropriate methods including checking with relevant government agencies as necessary. We also collect information on proposed counterparty clients from other sources such as our own archives, government agencies, industry websites and other public media. We perform on-site due diligence to examine the business operation of proposed counterparty clients as well as their properties, facilities and inventory and understand their products and services. We arrange face-to-face meetings and conference calls with various parties including proposed counterparty clients and their affiliates, customers, suppliers, business partners, auditors and legal advisors as well as relevant government agencies and local banks to obtain and verify various information. We compare and scrutinize information collected from different sources and make our own analysis of the reliability of different information. When necessary, we may also engage professional third parties to help us perform additional due diligence after considering the importance of the matter, time and monetary costs.

Our Trust Business Departments initiating the relevant projects take the primary responsibility for performing due diligence. The initiating Trust Business Department consults our Risk Control Department during the due diligence process, and if necessary, our Risk Control Department will participate in the due diligence directly and independently. We require at least a team of two people for all on-site due diligence sessions in order to create checks and balances.

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As many of our trusts involve financings for real estate projects, our Risk Control Department has built up significant expertise in this industry and established a dedicated group, the Real Estate Center, within the department, which will participate in due diligence of major real estate projects and review due diligence reports of all real estate projects. We established a comprehensive system that utilizes both qualitative and quantitative measures to assess potential projects. Our trust managers are required to prepare cash flow forecast and perform stress test on potential counterparties or their controlling shareholders and measure their credit risks based on the particular circumstances of the potential projects.

We typically require the real estate developer to provide certain assets, such as project under construction, land use right, completed property, equity interests in financial institutions or publicly traded stocks, as collateral for the financing. We generally set a maximum ratio of loan to collateral's value, or the LTV ratio, which needs to be satisfied at the time when the loan is granted. Under our internal policies, the maximum LTV ratio we normally require for loans to real estate development projects is 50%, or a relatively higher LTV ratio if the collateral is not the only security for the financing. Unless the counterparty is a state-owned enterprise or a listed company, we normally require the controlling person of the counterparty to provide guarantee for the financing as well. We take all necessary measures to ensure security interests for the financing are duly created and perfected. In case any direct loan is involved, we require the relevant real estate projects to have obtained the "four certificates," namely the land use certificate, the construction land planning permit, the construction engineering planning permit and the construction project construction permit. We will also require that the real estate developer's contribution by using its own capitals to the project should reach the minimum requirements by applicable laws and regulation. Based on information we have collected on the real estate development project and the counterparty as well as the form of financing we have decided to provide and the form of security for the financing, we formulate trust management plan including risk monitoring and emergency plan and operating procedures for the real estate trust, which will be continuously followed up after the trust is established and the entrusted funds are disbursed to the counterparty.

In addition, we take into account various factors in determining whether and what guarantee or collateral as credit enhancement for a financing trust is necessary, including but not limited to the track record and overall operation status of the relevant borrower, the value of the proposed guarantee and collateral as compared to the total financing amount, the industry policies and the growth prospects of the industry which the borrower is in.

In order to provide a standardized tool for us to perform due diligence and assess counterparties' creditworthiness, we have developed a proprietary rating system with the help of a professional accounting firm. The rating system guides us in the collection and analysis of various financial information of the proposed counterparties and assign an internal rating to each of the proposed counterparties after taking various quantitative and qualitative factors into consideration. Our internal rating has three levels, A, B and C. We normally will approve businesses with counterparties rated at level A or B only and will

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generally refrain from doing business with counterparties rated at level C. The risk mitigation measures we require will also differ based on the internal rating we assign to a proposed counterparty. The initiating Trust Business Department will perform the evaluation following instructions of the rating system and our Risk Control Department will check and verify the accuracy of the rating process.

With respect to indirect investment trusts, we perform due diligence on the asset management schemes or limited partnerships that these trusts will invest in as well as their asset managers or general partners. With respect to the asset managers or general partners, we conduct in-depth analysis of their reputation, management performance and any non-compliance records to ensure their ability to properly manage the assets management schemes or limited partnerships that our indirect investment trusts intend to invest in. With respect to the scheme or limited partnership itself, we carefully negotiate the relevant scheme contract or partnership agreement to reflect the purpose and strategy of our indirect investment trust that intends to invest in and ensure that our major investment concerns are duly addressed. We also endeavor to obtain information right, supervision right and participation right in certain cases to help protect the investments of our indirect investment trusts.

In addition, given the complexity of our securities investment trusts, our Risk Control Department takes different factors into consideration. As for management securities investment trust, we mainly focus on professional expertise, risk management and internal control capabilities, and software and hardware resources of the proposed investment advisor; as for structured securities trusts, we mainly focus on professional expertise of the proposed investment advisor and capital sufficiency of the subordinated beneficiaries.

At conclusion of the due diligence, the head of the initiating Trust Business Department will determine whether the risk-return profile of the proposed project may be acceptable to us, and if yes, the initiating Trust Business Department will prepare a detailed due diligence report, which will include, among others, analysis of the risks involved in the proposed project, proposed risk control measures, views of our Risk Control Department and the Real Estate Center, if applicable, and the internal rating assigned to the proposed counterparty.

Before initiating the formal approval process for the proposed project, our Risk Control Department will also review the application materials to ensure that the application is complete as to form.

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- ***Due Diligence on Trustor Clients***

We also perform due diligence on the trustor clients, which focuses on their source of fund, shareholding structure, organizational structure, and main businesses with the involvement of relevant internal departments and outside counsel, where professional legal opinion is required, in order to ensure that the entrusted assets are legally owned assets of the trustor clients and can be lawfully entrusted to us. We collect and review relevant corporate documents or personal identity documents, for corporate and individual clients, respectively, and verify against their respective bank account information, so as to ensure that they are qualified investors in compliance with the relevant laws and regulations. Another important aspect of our due diligence on the trustor clients is to understand their purposes in establishing the proposed trusts with us and to ensure that all of our trusts are established for lawful purposes as required by PRC laws. As advised by our PRC legal advisor, the applicable PRC laws and regulations only provide that (i) a trust company shall properly fulfill its responsibilities as the trustee in accordance with relevant laws, regulations and agreements and (ii) a trust company shall comply with all legal requirements applicable to financial institutions operating in China. There are no specific provisions under PRC laws and regulations that impose liability on a trust company if the trusts under its management, including both actively managed trusts and administrative management trusts, are involved in improper or illegal activities. Therefore, as advised by our PRC legal adviser, even if trusts under our management are found being involved in improper or illegal activities, as long as we have fulfilled all of our obligations and complied with all applicable requirements, we would not be held responsible or legally liable.

In order to train our relevant personnel on an on-going basis to promote our trusts properly and efficiently, we have established internal policies and have organized various training programs. The training programs typically cover various aspects, including updates relating to current legal and regulatory requirements and our internal policies, marketing skills and code of ethics. In particular, our employees are trained and required to fully disclose the risks to potential trustor clients when introducing our trusts and are not allowed to make any false or misleading statements. They are also not allowed to promise in any manner that the entrusted funds will not suffer any loss or any minimum return on the entrusted funds. Moreover, we may from time to time engage reputable commercial banks to help promote and distribute our trust products. In this regard, we conduct due diligence on these commercial banks by reviewing their business licenses and other relevant corporate documents in order to ensure that they are qualified entities for such trust promotion and distribution business.

Internal Approval Process

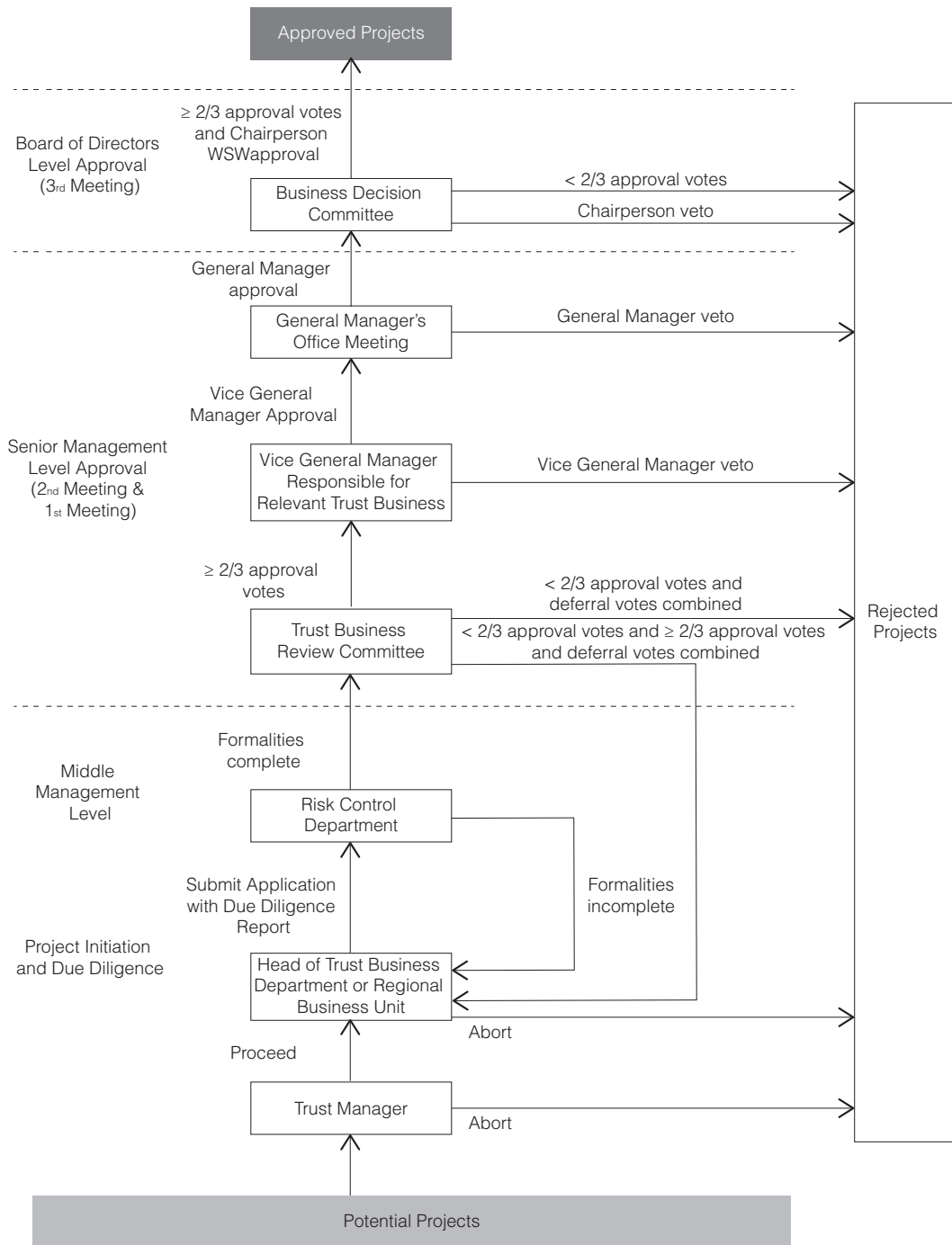
Given our different risk exposure under collective trusts, most of which are actively managed trusts, and individual trusts, most of which are administrative management trusts, we have adopted different approval requirements for these two types of trusts respectively.

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Collective Trust

We have adopted a strict approval process for our collective trusts, which features (i) three levels of approvals, which are often referred to as the “three meetings,” and (ii) veto rights granted to various officers while no person has the right to unilaterally authorize a proposed project.

The project initiation and approval process of our collective trusts may be illustrated as follows.



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- *1st Meeting – Trust Business Review Committee*

The first approval required for all of our collective trusts is that of the Trust Business Review Committee. Members of this Committee include: (i) the Chief Risk Officer who serves as the chairperson of the committee, (ii) no more than two vice-chairpersons which shall be selected from the heads of our Risk Control Department and Legal & Compliance Department, (iii) no less than three standing committee members, including the chairperson and the vice-chairperson(s) of the committee, and additional standing committee members to be selected from the heads of our Risk Control Department, Legal & Compliance Department, Business Supervision Department and Audit Department, (iv) unspecified number of expert committee members, selected from within and outside of our Company, with relevant experience and expertise, (v) unspecified number of rotating committee members, which positions will be assumed by the heads of our various business departments on a rotational basis. For each meeting of the Trust Business Review Committee, at least seven committee members need to be present, including (i) at least the chairperson or one of the vice-chairpersons, (ii) at least three standing committee members, (iii) two or one expert committee members depending on the type of trusts, and (iv) three rotating committee members. Among the seven or more attendees for each meeting, at least one committee member must possess lawyer qualification.

Our Risk Control Department will be responsible for convening meetings of the Trust Business Review Committee.

Each member of the Trust Business Review Committee has one vote and may cast the vote in three ways, “approval,” “rejection” or “deferral”. Decisions of the committee will be made as follows:

- o If there are two-thirds “approval” votes, the proposed project is approved by the Trust Business Review Committee and will enter the next stage of approval process.
- o If there are less than two-thirds “approval” votes but two-thirds or more “approval” votes and “deferral” votes combined, the committee will defer its decision on the proposed project to a later meeting so that the initiating Trust Business Department can prepare more materials and present to the committee for consideration.
- o If there are less than two-thirds “approval” votes and “deferral” votes combined, the proposed project will be rejected. Once a proposed project is rejected, the committee will convey its decision and underlying concerns to the initiating Trust Business Department. The committee’s rejection decision will be final and the proposed project cannot be submitted for approval again unless there is any fundamental change to the original proposal.

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- o Notwithstanding the above, the chairperson of our Trust Business Review Committee has veto power over any proposed project.

Detailed minutes of the committee meeting will be prepared including views and concerns expressed by all committee members. If the committee approves a proposed project, the committee's meeting minutes will become part of the application package and all views and concerns expressed by committee members will be reviewed and considered by subsequent approvers.

If the committee approves a potential project with comments, the initiating Trust Business Department must adopt and implement relevant measures to address such comments and submit a written report to our Chief Risk Officer, and Our Chief Risk Officer must be satisfied with the measures and sign off on the report before the project can submitted to our General Manager's Office Meeting for approval.

The Trust Business Review Committee meets weekly to review proposed projects. For applications that involve no material issues such as the renewal of an existing trust, the committee members may cast their votes in writing instead of meetings in person. While this is a more simple and speedy way to transact the committee's business, it is used only to accommodate special situations and the committee would normally require meetings in person to allow adequate live discussions among the committee members.

- *2nd Meeting – General Manager's Office Meeting*

The second approval required for all of our collective trusts is that of our General Manager's Office meeting.

In order to submit a proposed project approved by the Trust Business Review Committee to our General Manager for consideration, it must receive the affirmative support of one of our Vice General Managers that is responsible for the relevant trust business. As such, our Vice General Managers also have the authority to reject a proposed project within his responsible businesses.

If the relevant responsible Vice General Manager supports the proposed project, the proposed project will further be submitted to our General Manager by our Trust Business Departments. Our General Manager will convene an office meeting to consider the application and invite the following persons to the meeting: all of our Vice General Managers, our Chief Risk Officer, our Chief Financial Officer and the personnel of Risk Control Department. All of these meeting participants are required to express their views and suggestions on the application for the General Manager to consider. The chairperson of our Board of Supervisors may also attend the meeting as an observer and may, but is not required to, express his or her views on the application.

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Our General Manager is required to carefully consider all views and suggestions made by participants at the meeting and then make a decision on whether to approve or reject the application. If our General Manger decides to reject the application, the decision will be final.

If our General Manager approves a potential project with comments, the initiating Trust Business Department must adopt and implement relevant measures to address such comments and submit a written report to our Chief Risk Officer and General Manager, both of whom must be satisfied with the measures and sign off on the report before the project can submitted to our Business Decision Committee for final approval.

- *3rd Meeting – Business Decision Committee*

The final approval required for all of our collective trusts is that of the Business Decision Committee of our Board of Directors. This committee is required to have at least three members, including the Chairperson of our Board of Directors who serves as the chairperson of the committee. The other two committee members should be financial industry professionals from inside or outside our Company.

Our Risk Control Department will be responsible for convening meetings of the Business Decision Committee.

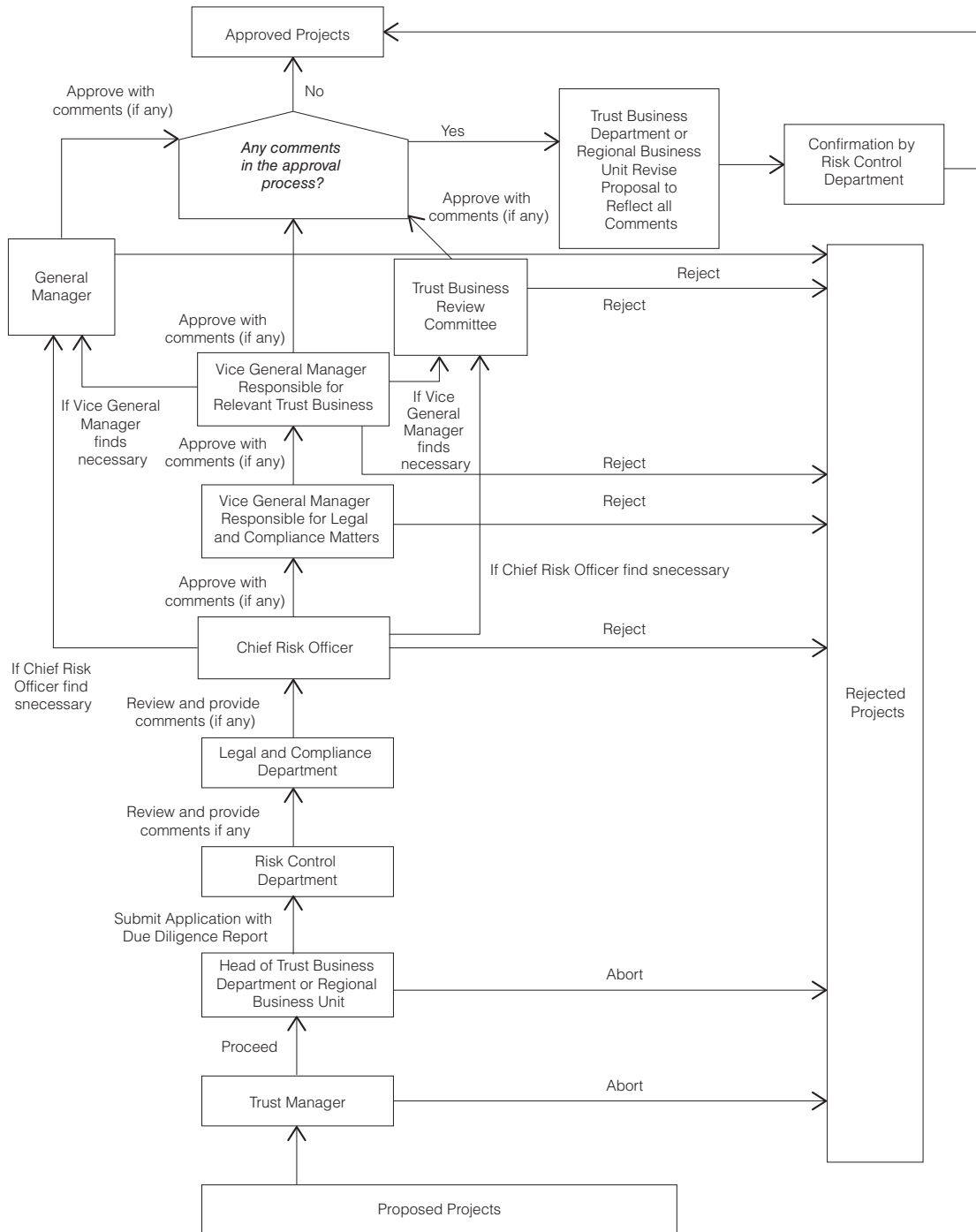
Each member of the Business Decision Committee will vote to approve or reject the proposed project. The Chairperson of our Board of Directors will have veto right. If he or she rejects the proposed project, the application will be rejected even if all other committee members approve the application. Even if the Chairperson approves the application, the application will still need the approval of at least two thirds of all the committee members before it is deemed to be approved by the Business Decision Committee.

Individual Trust

As most of our individual trusts are administrative management trusts and expose us to lower risks, we do not require Board of Directors level approval for such trusts. Instead, the highest level of officers required to approve our individual trusts are each of our Vice General Manager responsible for the relevant trust business, Vice General Manager responsible for legal and compliance matters and Chief Risk Officer. In addition, we do not normally convene meetings to review and approve individual trusts. An application for establishment of an individual trust will be circulated through each relevant department for review and written approval.

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The project initiation and approval process of our individual trusts may be illustrated as follows:



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As illustrated above, a proposed individual trust project is initiated by a trust manager. After the trust manager's team performs their due diligence, they will decide whether to proceed with the project by submitting the project to the head of their Trust Business Department, or the initiating Trust Business Department, for further consideration. If the head decides not to proceed with the project, the proposed project will be aborted. If the head decides to proceed with the proposed project, the initiating Trust Business Department will submit an application for the proposed project together with their due diligence report to the Risk Control Department.

The Risk Control Department will review the application, including the due diligence report, and provide its suggestions and comments, if any, in writing and will forward the application to the Legal & Compliance Department, which will also review and provide its suggestions and comments, if any, in writing and will forward the application to our Chief Risk Officer.

Our Chief Risk Officer will review the application and consider the suggestions and comments of the Risk Control Department and Legal & Compliance Department and determine whether to approve the application or reject it. If the Chief Risk Officer approves the application, the application will be sent to our Vice General Manager responsible for legal and compliance matters and our Vice General Manager responsible for the relevant trust business, each of whom will determine whether to approve the application or reject it.

If the Vice General Manager responsible for relevant trust business or our Chief Risk Officer finds necessary, he can submit the potential project with his comments to our General Manager or the Trust Business Review Committee for review and approval. Our General Manager or the Trust Business Review Committee will review the project and comments of the Vice General Manager or Chief Risk Officer and determine whether to approve the application or reject it. Our General Manager or Trust Business Review Committee may also provide written comments together with their approvals.

As a result, each of our Trust Business Review Committee, General Manager, Chief Risk Officer, Vice General Manager responsible for legal and compliance matters and our Vice General Manager responsible for the relevant trust business will have the power to veto a proposed individual trust project, while approval of such a project requires separate approvals from all of them. Each of these officers may also provide written comments together with their approvals.

If no comments are raised by our Risk Control Department, Legal & Compliance Department, Chief Risk Officer, Vice General Manager responsible for legal and compliance matters and Vice General Manager responsible for the relevant trust business during the approval process, the proposed individual trust project will proceed to establishment stage directly upon obtaining all approvals. If any comments have been raised by any of these departments and officers, the initiating Trust Business Department will need to revise the proposed project to reflect such comments even if the proposed

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project has received all necessary approvals, and our Risk Control Department will review the revised proposal and confirm that all such comments are properly addressed in the revised proposal.

Trust Establishment

We will proceed with establishment of a trust once it has received all required internal approvals. This involves preparation and execution of all relevant legal documents, opening of trust accounts with custodian banks and instruct the trustors to transfer their entrusted assets into the trust accounts.

Legal Documentation

We enter into various agreements in connection with each of our trusts. We enter into trust contracts with the trustors, financing or investment agreements with our counterparties and custody agreements with custodian banks. For many financing-oriented trusts, we require our counterparties to provide various types of security for the financing and enter into various ancillary agreements, such as guarantee, collateral and pledge agreements, with the relevant parties. For our securities investment trusts, we often engage investment advisors and enter into agreements with the advisors. We also engage professional property valuation firms, other assets valuers, legal and other advisors from time to time.

We have established standard procedures for approving major agreements entered into in connection with our trusts, which involve the following departments and officers:

- *Initiating Trust Business Departments*

The initiating Trust Business Departments will be mainly responsible for negotiating the relevant agreements with the other parties and ensure all commercial terms as agreed with the other parties and internally approved are duly reflected in the final agreements. For additional information, see “Business — Information Technology — Information Systems — Comprehensive Management System”.

- *Legal & Compliance Department*

Our Legal & Compliance Department is responsible for ensuring that the agreements we enter into comply with the extensive, complex and constantly changing laws and regulations issued by various governmental authorities and meet our internal requirements.

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For important agreements, such as trust contracts or loan agreements, we engage reputable Chinese law firms with substantial experience in the relevant areas to help us prepare standard forms and review individual agreements. We have a slate of reputable Chinese law firms pre-approved by our senior management and Board of Directors which we may choose from for a particular project. We also have in-house counsels who will review all of our business agreements. Each of our agreement in connection with trust business will require written sign-offs from an in-house counsel and the head of our Legal & Compliance Department.

- *Senior Management*

Our senior management is granted with the final authority to approve execution of agreements in connection our trust business. However, none of our senior management members can approve on his or her own. Instead, each of our agreement in connection with trust business will require written approvals from each of our (i) Chief Risk Officer, (ii) Vice General Manager responsible for legal and compliance matters and (iii) Vice General Manager responsible for the relevant trust business.

Furthermore, prior to signing trust contracts, our employees are required to ask our trustor clients to acknowledge in writing that they understand the potential risks relating to their investments in the trust products and ensure that our trustor clients understand the terms and conditions, particularly the terms relating to allocation of risks and responsibilities, provided in the trust contracts. As required by the relevant laws and regulations, we record the trust contract signing process on audio and video tapes which are duly archived for reference and administration purpose.

Opening of Special Accounts and Transfer of Trust Assets

Once legal documents for a trust are executed, the next step of our business operation is to transfer the trust assets into the designated bank account. We have established operational procedures to open a special and separate account for the trust and receive the trust assets, which involves the following departments.

- *Planning & Finance Department*

Pursuant to the *Measures for the Administration of Trust Companies* (信託公司管理辦法) promulgated by the CBRC, trust companies are required to open a special and separate trust account for each of its trusts. To follow such requirement, we have adopted the *Regulation on the Financial Management of Trust Business* (信託業務財務管理辦法), pursuant to which once a trust contract comes into effect, our Planning & Finance Department will set up a special and separate account for the trust.

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To lodge an application for the opening of a special and separate account, the initiating Trust Business Department needs to submit several materials, including (1) all approvals issued in our internal approval process, (2) documents required by the custodian bank at which the account will be opened, (3) a trust agent agreement signed with the custodian bank, (4) the specific details of the trust, and (5) all other required approvals. The Planning & Finance Department will open the bank account after examining the above mentioned materials.

- *Initiating Trust Business Department or Wealth Management Center*

After the special bank account has been opened, the initiating Trust Business Department or Wealth Management Center will notify the trustors to transfer their entrusted assets into the special account in accordance with the trust contract.

For individual trusts, the initiating Trust Business Department will input the names of trustors and key information of the trust contract into our trust administration system.

For collective trusts, the Wealth Management Center will input the names of trustors, the respective amount of their entrusted asset and key information of the trust contract into trust administration system. After the examination by the Operation Management Department mentioned below, the initiating Trust Business Department also needs to provide the internal approval documents, the trustors list and the original custodian bank statement to the Planning & Finance Department for records.

- *Operation Management Department*

The Operation Management Department will examine the information submitted by the initiating Trust Business Department or Wealth Management Center and give instructions to the Planning & Finance Department to accept and check the entrust assets from the trustors.

The trust is officially established after the trustors have transfer the trust assets into the relevant special and separate account.

RISK MANAGEMENT

Ex-post Risk Management

Trust Management and Information Disclosure

- *Investments in Non-Standardized Financial Assets*

Our ex-post management of our trusts' investments in non-standardized financial assets, including loans to and equity investments in various types of companies, relies on personalized efforts of our various departments. We have also established an information system, the Asset Management System, to help us better manage these investments. For additional information, see "Business — Information Technology — Information Systems — Assets Management System".

The first step in management of the trust assets is to deploy the assets according to the trust contact and agreement with our counterparty. We have established strict procedures for the deployment of trust assets. After the trust is established, the initiating Trust Business Department will input the information about our contracts with the counterparties into our Asset Management System.

There are four steps to be undertaken by four departments in order to deploy trust assets in accordance with the trust contract and our contract with counterparties.

- Initiating Trust Business Departments

The initiating Trust Business Department will initiate the procedures for deploying the trust assets through our asset management system, which will transfer the application into our Comprehensive Management System.

- Legal & Compliance Department

After receiving the deployment application, the Legal & Compliance department will examine whether all the terms and conditions for deployment of the trust assets have been satisfied. Once it is confirmed by the Legal & Compliance Department, the deployment application will be submitted to the Operation Management Department.

- Operation Management Department

The Operation Management Department will perform a strict examination to make sure that the proposed deployment is consistent with the requirements of all relevant documents submitted by the business departments including various internal approval forms, due diligence report, trust contract, loan contract, guaranty contract, fund supervision agreement, mortgage contract

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and other documents. The purpose of such examination is to avoid the risks of operational mistakes and human negligence.

- Planning & Finance Department

After approval of the Operation Management Department is obtained, the application will be transferred to the Planning & Finance Department. The initiating Trust Business Department will need to provide all the approval documents, relevant contracts and other necessary materials. If it is satisfied with all the materials, the Planning & Finance Department will make the payment and the transaction will be recorded in our financial system.

After deployment of the trust assets, we take various measures to monitor and manage the risks of our trusts' investments. The initiating Trust Business Department will be in charge of regular examination on our trusts' investments, generally focusing on the operation and financial status of our counterparties, their use of the proceeds from our investments, the development of the projects we invested in and the status of collateral. When we notice that our counterparties are experiencing deterioration of its business and financial condition, major corporate restructuring or reorganization, material lawsuits or other events which may adversely affect their ability to repay the principal and interests, we will take necessary action to protect the trust assets.

The Business Supervision Department is responsible for the regular ex-post inspection of our projects. The Business Supervision Department will check and assess the operation of our business. These examinations mainly focus on our financing-oriented trusts, especial relating to the real estate projects.

We disclose information about our trusts that invest in non-standardized financial assets to trustors and beneficiaries of the trusts according to applicable laws and regulations and the relevant trust contracts. Such disclosure may include periodical reports and special reports on important matters with respect to the trusts. The form, frequency and content of the disclosure will be determined based on the types of trusts and the assets they invest in and will be specified in the relevant trust contracts. We also provide full and accurate disclosure to trustor clients before we place our collective fund trust products to them and provide liquidation reports to beneficiaries upon liquidation of all of our trusts. We have adopted *Administrative Measures on Information Disclosure of Trust Projects* (信託項目信息披露管理辦法) to regulate various aspects of our information disclosure practice. Unless otherwise required by applicable laws and regulations, we only disclose information about a trust to its trustors and beneficiaries and other persons that may be designated in the relevant trust contract.

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- *Investments in Standardized Financial Assets*

For our trusts that invest in standardized financial products such as our securities investment trusts, the deployment of trust assets will occur frequently as the trusts may continuously buy and sell the financial products according to advice from their investment advisors. As such, we have designed two information systems to automate the relevant processes and manage and control relevant risks. First, our evaluation and verification system perform evaluation of the NAV of our securities investment trusts on a real time basis and help us ensure that investments made by the trusts conform to their trust contracts. For additional information, see “Business — Information Technology — Information Systems — Evaluation and Verification System”. Second, our securities trading system allows us, our securities brokers and investment advisors of our securities investment trusts to work together so that we could execute their trading decision in a safe and efficient manner. For additional information, see “Business — Information Technology — Information Systems — Securities Trading System”.

Each of the two information systems operates under the supervision of our Operation Management Department and Planning & Finance Department. Our Operation Management Department will review and confirm all parameters set in the information systems to ensure that trades authorized by the systems will be consistent with the relevant trust contracts. Our Planning & Finance Department will monitor the systems to ensure that their disposals of the trust assets are in compliance with our various internal requirements.

We disclose information about our trusts that invest in standardized financial assets to trustors and beneficiaries of the trusts according to applicable laws and regulations and the relevant trust contracts. With respect to securities investment trusts, we disclose the NAVs of their trust units on our website on a weekly basis. We also mail written reports on the NAVs to trustors and beneficiaries of the relevant securities investment trusts every month unless they have waived such rights. However, we failed to mail such monthly written reports for one of our securities investment trusts in the history. See “Business — Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures” for additional details. We also provide such NAV information as of the last trading day to trustors and beneficiaries of the relevant securities investment trusts upon their requests. When there are important matters with respect to a securities investment trust, such as the convening of beneficiaries’ meetings, change of investment advisor, custodian bank, securities broker or our trust manager, or distribution of trust benefits, we also prepare and distribute special reports to trustors and beneficiaries. We also provide full and sufficient disclosure to trustor clients before we place our securities investment trusts to them and provide liquidation reports to beneficiaries upon liquidation of such trusts.

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We have also imposed requirements on investment advisors of our securities investment trusts including that they should maintain paid-up capital over a minimal threshold, have a qualified investment management and research team, have members that possess certain qualifications and working experience, and have in place well-established business operation rules and risk management system. We also require that there shall be no material non-compliance issues for the investment advisor within its last three years of operation. We do not engage related parties of us as the investment advisors.

Risk Monitoring, Risk Mitigation and Resolution and Risk Management

We consider ongoing risk monitoring after the establishment of trusts and the corresponding mitigation and resolution and management of risks identified essential to discharge our duties as trustee and critical to our trust business as any failure to do so may damage our reputation and the confidence and sentiment of investors towards our trust products and thus materially and adversely affect our trust business.

While our Trust Business Departments are primarily responsible for risks identification, measurement, reporting, mitigation and resolution and management, our various functional departments (including Risk Control Department, Legal & Compliance Department, Business Supervision Department, Asset Disposition Department and Audit Department), our senior management team (including our Chief Risk Officer, Vice General Managers and the General Manager), and our Business Decision Committee at the Board of Directors level are all involved in the process. In addition, we have established a Trust Business Ad-hoc Issue Coordination Group to help us deal with materialized risks and formulate optimal risk resolution plans for our actively managed trusts.

- ***Risk Monitoring***

We employ a variety of methods for conducting ex-post risk monitoring. By conducting scheduled or non-scheduled on-site or off-site inspections, we keep monitoring our counterparties' management status, business operation, financial condition, financing and credit status, contingent liabilities and their actual use of the financing provided by our trusts. If we identify any late payment (including any late interest payment) by a counterparty, we will adopt enhanced inspection measures, such as more frequent on-site inspections and additional document review requests, with respect to such counterparty and its guarantors or collaterals which enable us to commence the risk mitigation or disposition measures in a timely manner in case of the continuing deterioration. We also monitor the implementation of our various risk control measures, business and financial conditions of the guarantors and status of collaterals provided. The frequency of our regular ex-post monitoring varies depending on the risk profile of the relevant project. We have also set up a risk alert mechanism that aims to promptly detect risks by monitoring information from various sources such as CBRC, PBOC, public records of various governmental authorities and courts in China and counterparties' financial reports.

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- *Risk Mitigation and Resolution*

As risks are inherent in any business and many of which are beyond our control, risks of loss of our trust assets may materialize from time to time notwithstanding the risk control measures we have taken. For example, a counterparty of our trust may experience significant deterioration in its financial conditions, encounter liquidity issues or become subject to material litigation or other legal proceeding, any of which may prevent it from fulfilling its payment obligations to the trust. Whenever we identify such materialized risks during our ongoing risk monitoring process, we will take various actions to mitigate or resolve them in accordance with our trust contracts. For administrative management trusts, we normally notify the relevant beneficiaries and take actions according to the beneficiaries' instructions. For actively managed trusts, we normally determine the course of action but may discuss with the beneficiaries and other relevant parties as necessary. Such actions may include but not limited to requiring the counterparty to provide additional guarantee or collaterals, accelerating due date of the loan and demanding immediate repayment, and taking legal actions to enforce on the guarantee or collateral as necessary.

- *Risk Management of Troubled Trusts*

With respect to certain actively managed trusts with materialized risks of counterparty default, notwithstanding the risk mitigation and resolution measures we take, during the term of a trust, we may determine that there is still substantial likelihood that we will not be able to collect all payments from the counterparty according to its contract with us before the expected dates of distribution and/or the trust expiration date and therefore such distribution to beneficiaries of the trust is unlikely to be made as planned. We refer to such trusts as "troubled trusts". In determining whether a trust has become such a troubled trust, we consider all relevant factors including but not limited to the relevant counterparty's business operation, financial condition and performance, repayment record, and the status and estimated value of any collaterals. When an actively managed trust becomes a troubled trust, the Trust Business Department in charge is required to report to our Trust Business Ad-hoc Issue Coordination Group. The Trust Business Ad-hoc Issue Coordination Group will coordinate the efforts and resources across our various functional departments to formulate a proposed risk disposition plan, which will be submitted to the General Manager's Office Meeting and the Business Decision Committee for review and final approval. Our Directors believe our measures in identifying troubled trusts have been effective in the sense that the 29 troubled trusts were identified by our measures during the ex-post trust management process, and up to the Latest Practicable Date, there is no other trust scheme that, following the same measures, should be categorized as troubled trust.

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Having taken into account (i) the view of the Directors; and (ii) the review results of the internal control consultant of the Company, nothing has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to believe that should the identification measures be implemented properly and consistently, the Company could not effectively identify potential troubled trusts.

In accordance with CBRC's guidance, we have followed a market-oriented and individualized approach to the risk management of our troubled trusts. Each of our risk management plans is tailor-made to fit the particular situation of a troubled trust and therefore varies significantly from one another. Listed below are some of the general approaches that we may adopt to dispose of the risks of our troubled trusts.

- o First, we may try to make additional efforts to cause the counterparty or its guarantors to fulfill their payment obligations to the trust before the trust's expiration date so that we can still make distribution to beneficiaries as planned. Such additional efforts may include enhancing our communication with the counterparty and its guarantors to ensure that they understand the consequences of a default, increasing the extent and frequency of our monitoring of their businesses and assets and seeking freezing orders as necessary, and resorting to potential assistance from their related parties and/or business partners to pressure them into fulfilling their payment obligations. We may also enforce the collaterals and take legal actions when we believe it is in the best interest of the beneficiaries to do so.
- o We may agree with the beneficiaries of the troubled trust to extend the expiration date of the trust. Such an extension will allow us, as the trustee, to reach agreement with the counterparty or its guarantors to extend the due date of their payment obligations so as to give them additional time to obtain funding needed to fulfill their payment obligations. As part of the risk disposition plan and our agreement with the counterparty and/or its guarantors, we may require them to undergo certain restructuring or provide additional security for their payment obligations.
- o We may also consider selling the assets of a troubled trust to third parties. In the process of formulating our risk disposition plan, we may engage in discussions with other relevant parties, such as guarantors of the counterparty, their affiliates or other interested parties, and seek their interests in buying such assets. Lucion Group and our other related parties may also have interests in buying such assets, in which case we (as the trustee) negotiate with them at arm's length basis to determine whether to sell the assets to them or other independent third parties. During the Track Record Period, we (as the trustee) sold the loan asset of one troubled trust, which we did not provide liquidity support to and did not consolidate into our

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financial statements, to Lucion Group at a consideration of RMB89.7 million. We did not have any other similar transaction with our related parties during the Track Record Period.

- o We may use our proprietary funds to provide liquidity support to troubled trusts in very limited circumstances as described below.

Under PRC laws and regulations, we are not responsible to our trustor clients or the beneficiaries for any loss of trust assets under our management, except for losses caused by our failure to properly fulfill our duty as a trustee. See “Business — Our Trust Business — Basic Construct of Our Trusts — Risk Allocation”. While we do not have any legal obligation to provide liquidity support to any troubled trust, we may decide to use our proprietary funds to provide liquidity support to certain troubled trusts based on our business judgment and consideration of the factors as described below.

- o We will consider the extent of potential reputational harm to us if the troubled trust cannot make distribution to its beneficiaries as planned upon expiration of its term. Factors we normally consider include the number of beneficiaries and type of beneficiaries (i.e. individual versus institutional) with respect to such type of trusts and potential impact on investor confidence in our similar trust products. As such, we only consider providing liquidity support to troubled trusts that have many beneficiaries and majority of them are individual investors, who may lose confidence in our actively managed trusts if one of such trusts suffered a loss due to counterparty default.
- o We will consider whether it is likely that we will incur a loss as a result of providing liquidity support to the troubled trust. We will assess the business and financial conditions of the counterparties and their guarantors as well as the value of any collaterals provided. We will provide liquidity support to a troubled trust only if we conclude, after such assessment, that the trust is only experiencing temporary liquidity issue and it is likely that the counterparty or its guarantor will eventually fulfill all of their payment obligations or the value of the collaterals should be sufficient to cover all such payment obligations.
- o We will consider policies and guidance issued by relevant PRC government authorities, especially the CBRC. We will provide liquidity support to a troubled trust only if it is in accordance with such policies and guidance and we will not do so if it will be against any PRC government policies or guidance. Specifically, in April 2014, CBRC published the *Guiding Opinions of the General Office of the CBRC in Relation to the Risk Control of Trust Companies (Yin Jian Ban Fa*

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[2014] No. 99) (《中國銀監會辦公廳關於信託公司風險監管的指導意見》銀監辦發[2014]99號文) which requires trust companies to (i) use all efforts to dispose of the exposed risks of all trust schemes, and (ii) follow a market-oriented approach and formulate individualized and tailored plans to dispose of the exposed risks of their trust schemes including through, among others, disposition of collaterals, enforcement of guarantees, legal proceedings, debt restructuring and disposition of trust assets to outside buyers. These guiding opinions also require trust companies to be fully aware of their role, i.e. accepting entrustment of assets from trustors and managing such assets on behalf of the trustors, and therefore should cultivate a trust culture whereby the trustees should fulfill their obligations but the trustors should assume risk of investment losses of the trust schemes. We understand that these guiding opinions emphasized again that trust companies should not guarantee in any manner that the entrusted assets will not suffer any loss, but should try to dispose of the exposed risks of their trust schemes through market-oriented approach. As such, we will follow a market-oriented approach in determining whether liquidity support should be provided to a troubled trust and our decision to do so is based on our business judgment that providing such liquidity support will maximize our commercial interests. If the relevant PRC government authorities change their current policies or guidance in the future, we will ensure that our business practice will conform to such new policies or guidance.

The following sets forth the general steps we have adopted to make decisions on the provision of liquidity support:

- o We manage the potential risk in providing liquidity support to any particular troubled trust through coordinated efforts across different departments and discussion facilitated by our multi-level internal approval process. Trust Business Department is primarily responsible for ex-post monitoring of trust schemes it has established. During the term of the relevant trusts, in case Trust Business Department concludes that for any particular trust scheme, (i) there is substantial likelihood that payment could not be collected from the counterparties according to its contract with us before the expected dates of distribution and/or the trust expiration date and therefore such distribution to beneficiaries of the trust is unlikely to be made as planned, despite all market-oriented approaches described on pages 423 and 424 of this prospectus have been explored, and (ii) liquidity support should be provided, such conclusion will be examined by the Trust Business Ad-hoc Issue Coordination Group, whose members include (in addition to the trust manager involved and its department head) the Chief Risk Officer, the head of Risk Control Department, the head of Legal & Compliance Department and the head of Asset Disposition Department. The various department heads will examine the risk disposition plan formulated by the

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relevant Trust Business Department to determine whether the relevant risk can be resolved through other means and assess whether liquidity support should be provided by balancing the potential reputational risk arising from failure to distribute to beneficiaries as planned and the potential loss of proprietary funding involved. Discussions of the Trust Business Ad-hoc Issue Coordination Group shall be documented.

- o If the Trust Business Ad-hoc Issue Coordination Group concludes that liquidity support should be provided for a particular troubled trust, such decision will be reported to the General Manager at the General Manager's Office Meeting where the General Manager will take into account various factors, including but not limited to recommendations made by the Trust Business Ad-hoc Issue Coordination Group, discussion with various department heads involved, the potential reputational harm and the likelihood that our Company will incur a loss, to ensure that all relevant issues are explored thoroughly.

- o If the General Manager agrees that liquidity support should be provided for a particular troubled trust, such decision will be brought forward to the Business Decision Committee for final review and approval. The Business Decision Committee consists of at least three members, including the Chairperson of the Board of Directors and at least two members who are financial industry professionals inside or outside of the Company. Members of the Business Decision Committee will review the conclusion reached by the Trust Business Ad-hoc Issue Coordination Group by leveraging on their extensive industry experience. The involvement of external committee member ensures that the decision is made after considering views other than those of our management. If the Business Decision Committee approves the decision made by the Trust Business Ad-hoc Issue Coordination Group to use our proprietary funds to provide liquidity support to a troubled trust, we may either (i) establish a new trust to acquire from the troubled trust the beneficial rights to the trust's loan or other form of financing to the counterparty client or (ii) acquire all of the beneficial rights to the troubled trust from its original beneficiaries, in each case, using our proprietary funds. We normally adopt the first approach when the troubled trust has many beneficiaries and it would be administratively burdensome to acquire all of the beneficial rights to such trust from its many beneficiaries.

During the Track Record Period, we identified 29 troubled trusts, 27 of which are actively managed, financing trusts and the remaining two are actively managed, alternative investment trusts that invest in artworks. As of December 31, 2014, 2015 and 2016 and May 31, 2017, there were 6, 14, 6 and 8 troubled trusts in existence, with corresponding AUM amounting to RMB358.2 million, RMB1,260.9 million, RMB660.6 million and RMB912.6 million, respectively. The average interest rate of the loans to customers granted by the 27 troubled financing trusts as specified in the relevant agreements was 12.34% on an annualized basis and the average initial loan-to-value

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ratio (which is calculated as the principal amount of the loan divided by the original value of the collateral at the time such collateral was provided) of the loans granted by the 27 troubled financing trusts was 38.04%. The two alternative investment trusts were structured trusts whereby two companies independent from us and specialized in artwork investment and management invested in them as subordinated trustors and beneficiaries, and other investors, including us, invested in them as priority trustors and beneficiaries. The subordinated trustors also acted as investment advisors to these trusts and we, as the trustee, invested the trust funds in artworks pursuant to advice from the investment advisors. Upon expiration of these trusts, the priority beneficiaries would be entitled to cash distribution that represents a fixed return on their original investment, and if cash held by the trusts were not sufficient for such distribution, the investment advisors would be required to make cash payments to the trusts so that the trusts have sufficient cash for the distribution. Due to such payment obligations assumed by the investment advisors, they also became counterparties to these trusts. When the terms of these two trusts were about to expire, we found (i) that it was impractical to liquidate the artworks held by these trusts within a short period of time at a price that would enable the trusts to make the required cash distribution to priority beneficiaries and (ii) the two investment advisors informed us that they would not be able to fulfill their payment obligations to the trusts due to their financial difficulties. As of the Latest Practicable Date, we are still in the process of disposing the relevant artworks to recover our investments in the relevant trusts. We, as the trustee, are always responsible for operating these two trusts, and because the two investment advisors defaulted on their payment obligations, we are entitled to find potential buyers and dispose of the artworks in order to protect the interests of all priority beneficiaries. For one of these trusts, we have entered into a settlement agreement with its investment advisors in August 2017 pursuant to which, we have been identifying qualified auction companies to dispose of the artworks and the investment advisors will fulfil their payment obligations to compensate the difference if the trust still does not have sufficient cash for distribution to priority beneficiaries after such disposal. Guarantors to the original trust scheme will be jointly and severally liable for such payment obligations. We have also been actively looking for disposal plans for the remaining one trust, including but not limited to seek for similar settlement arrangements or court decision through filing a lawsuit. Because the payment obligations of the investment advisors were not loans, there were no interest rates applicable. We have properly fulfilled our obligations as the trustee for all of these trusts. Notwithstanding the due diligence we have performed and the risk monitoring and mitigation measures we have taken as further described on pages 421 and 422 of this prospectus, we determined that there were substantial likelihood that we, as the trustee, would not be able to collect all payments from the relevant counterparties according to their contracts with us before the relevant trust expiration dates for various reasons that were unexpected and beyond our control such as the simultaneous materialization of several risks for the counterparties, including decrease in customer demands, increase in the difficulty of debt collection, tightening of external financing and increased liability exposure, and significant decrease in the market value of relevant assets which in the aggregate materially and adversely

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affected the financial positions of the relevant counterparties. The counterparties to each of these troubled trusts actually defaulted under some or all of their payment obligations to these trusts shortly before or subsequent to our determination that such trusts have become troubled trusts. Given the large number of trust schemes under our management and the inherent risk of all investment activities, we do not believe the identification by us of these 29 troubled trusts during the Track Record Period should be any indication of poor performance on our part in managing our actively managed trusts.

Among all 29 troubled trusts we identified during the Track Record Period, we provided liquidity support to 15 troubled trusts through the establishment of a new trust to acquire from the relevant troubled trust the beneficial rights to the trust's loan or other form of financing to the counterparty client. The aggregate trust AUM of such 15 troubled trusts amounted to RMB1,240.7 million, representing 37.5% of the total trust AUM of the 29 troubled trusts. In addition, we provided liquidity support to three troubled trusts through the acquisition of all of the beneficial rights to the relevant troubled trust from its original beneficiaries. The aggregate trust AUM of such three troubled trusts amounted to RMB305.0 million, representing 9.2% of the total trust AUM of the 29 troubled trusts.

During the Track Record Period, we did not provide any liquidity support to 11 of the 29 troubled trusts (including the two troubled alternative investment trusts) and we do not plan to provide any liquidity support to them either. The aggregate trust AUM of such 11 troubled trusts amounted to RMB1,760.4 million, representing 53.3% of the total trust AUM of the total 29 troubled trusts. As of the Latest Practicable Date, six of such 11 troubled trusts were liquidated and, among them, five were liquidated in cash and the beneficiaries of such trusts did not suffer any loss as all principals and interests due were collected as the result of our various risk disposition measures. The counterparties to four of these five troubled trusts eventually fulfilled their payment obligations before the trusts' original expiration dates or extension thereof. We (as the trustee) sold the loan asset of the remaining one of these five troubled trusts to Lucion Group at a consideration of RMB89.7 million in January 2016. We also liquidated a troubled trust in kind and have distributed the trust assets and relevant creditor's rights to the trust's beneficiaries. The aggregate trust AUM of the remaining five of these 11 troubled trusts amounted to RMB647.9 million. While we do not plan to provide liquidity support to any of these five troubled trusts, we will continue to work on their risk disposition through other methods. We made proprietary investments of RMB139 million, RMB50 million and RMB15 million respectively in three of these five troubled trusts as a trustor and beneficiary upon their establishment in 2015, including the two alternative investment trusts investing in artwork. We made impairment allowances of RMB4.2 million, RMB1.0 million and RMB5.5 million respectively in connection with our proprietary investments in these three trusts as of May 31, 2017 and we believe such impairment allowances were adequate and were provided in accordance with literature under IAS 39 Financial Instruments: Recognition and

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Measurement. Other than these three trusts, there was no other troubled trust in which we made any proprietary investment upon its establishment.

While we have no such obligations, based on our business judgment and consideration of the factors described on pages 424 and 425 of this prospectus, we used our proprietary funds to provide liquidity support to 18 of the 29 troubled trusts. The aggregate trust AUM of such 18 troubled trusts amounted to RMB1,545.7 million, representing 46.7% of the total trust AUM of the total 29 troubled trusts. As of December 31, 2014, 2015, 2016 and May 31, 2017, the balance of our proprietary funds used to provide liquidity support to such troubled trusts amounted to RMB342.2 million, RMB888.2 million, RMB186.1 million and RMB186.1 million, respectively, representing 0.68%, 2.24%, 0.30% and 0.23% of the trust AUM of our actively managed trusts as of the respective dates and representing 0.10%, 0.37%, 0.07% and 0.07% of the AUM of all of our trusts as of the respective dates.

The following table illustrates the industry exposure of the outstanding loans granted by our troubled trusts to which we provided liquidity support as of the dates indicated.

	As of December 31,						As of May 31,	
	2014		2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Amount: in millions of RMB)							
Real estate	–	–	56.0	6.3	–	–	–	–
Industrial & commercial								
– Construction	53.0	15.5	–	–	–	–	–	–
– Manufacturing	198.9	58.1	319.2	35.9	61.8	33.2	61.8	33.2
– Mining	49.8	14.6	60.2	6.8	–	–	–	–
– Wholesale & retailing	–	–	387.9	43.7	48.1	25.9	48.1	25.9
– Others	40.5	11.8	64.9	7.3	76.2	40.9	76.2	40.9
Total	342.2	100.0	888.2	100.0	186.1	100.0	186.1	100.0
Average outstanding amount per loan	57.0		74.0		62.0		62.0	

All of the counterparties of the above trust schemes are privately owned enterprises. More than half of them are located in Shandong, with the rest located in Beijing, Hebei, Hubei, Jiangsu and Zhejiang provinces of China.

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The following table illustrates the provision and recovery of our proprietary funds used for providing liquidity support to our troubled trusts during the Track Record Period,

	Year ended December 31,			Five months ended	Cumulative
	2014	2015	2016	May 31, 2017	
	(RMB in million)				
Beginning	50.5	342.2	888.2	186.1	
Provided	336.7	700.6	95.2	–	1,183.0
(Recovered)	(45.0)	(154.6)	(797.3)	–	(996.9)
Ending	342.2	888.2	186.1	186.1	

We have consolidated the troubled trusts that we provided liquidity support in our financial statements pursuant to IFRSs. For details, please see “Financial Information — Factors Affecting Our Results of Operations — AUM, Asset Quality and Financial Performance of Consolidated Trust Schemes”.

While, at the time we decided to provide liquidity support to troubled trusts, we believed it was likely that the relevant counterparty or its guarantor would eventually fulfill all of their payment obligations or the value of the collaterals would be sufficient to cover all such payment obligations, it may become evident after we provided the liquidity support that some of the assets held by these trusts were impaired due to subsequent events. In such cases, we would perform impairment assessment and record impairment losses as necessary. As of May 31, 2017, the balance of our cumulative proprietary funds used to provide liquidity support and not subsequently recovered amounted to RMB186.1 million, and such funds were invested in loans to customers in the aggregate amount of RMB258.1 million. As of May 31, 2017, none of such loans were overdue but not impaired, RMB258.1 million of such loans were impaired, and we have made impairment allowances in the aggregate amount of RMB177.6 million to provide for potential losses that we may incur from these loans. The aggregate value of collateral (calculated using their initial value at the time such collateral was provided) for such loans outstanding as of December 31, 2014, 2015, 2016 and May 31, 2017 was RMB349.3 million, RMB601.4 million, RMB113.6 million and RMB107.7 million, respectively.

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The following table illustrates the movement of impairment allowances on loans granted by the troubled trusts to which we provided liquidity support during the Track Record Period,

	Year ended December 31,			Five months ended May 31,	Cumulative
	2014	2015	2016	2017	
	(RMB in million)				
Balance at beginning of the year/period	50.4	220.7	464.0	144.4	
Net impairment allowances changed to profit or loss	170.3	243.3	23.8	33.2	470.6
Transfer out	—	—	(343.4)	—	(343.4)
Ending at end of the year/period	<u>220.7</u>	<u>464.0</u>	<u>144.4</u>	<u>177.6</u>	

Based on our impairment assessment (primarily concerning factors set out in note 2.16.1(e) to the Accountants' Report in Appendix I of this prospectus), we believe adequate impairment allowances have been provided for those impaired loans, as such impairment allowances were provided in accordance with literature under IAS 39 "Financial Instruments: Recognition and Measurement". Such impairment allowances were measured by the difference between carrying amount of those impaired loans and present value of estimated future cash flows, in particular, disposal proceeds after deduction of expenses attributable to such disposals as of each of the balance sheet dates, respectively. For details, please see "Financial Information — Selected Consolidated Financial Positions — Assets — Loans to Customers" and "Financial Information — Qualitative and Quantitative Disclosures about Financial Risks — Credit Risk — Credit Risk from Loans to Customers".

After we provide liquidity support to a troubled trust, we may continue to hold the assets acquired from such trust or dispose of them based on our business judgment after considering our business needs, financial condition and the terms offered by interested buyers. During the Track Record Period, based on arm's length negotiation, we sold the loan assets that we acquired from two troubled trusts to which we provide liquidity support to Lucion Group. The consideration for the transactions amounted to RMB257.8 million, which was equal to the carrying value of those loan assets, and we did not recognize any gain or loss from these transactions. As these transactions were conducted on arm's length, we understand that Lucion Group decided to acquire these loan assets at their carrying value because they believe it is likely that they can continue to receive interests on those loan assets after acquiring them from us and eventually recover the principal amounts as well. As the aggregate amounts of principal and interests receivable are likely to exceed the amounts paid, such transactions were commercially justifiable for Lucion

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Group. During the Track Record Period, based on arm's length negotiation, we disposed of the loan assets of nine of our troubled trusts to which we provided liquidity support as a package to Shandong Provincial Financial Asset Management Co., Ltd, a subsidiary of Lucion Group and a related party. As advised by our PRC legal advisers, such disposal did not contravene any relevant laws and regulations in the PRC. One of our consolidated trust schemes made equity investment in Shandong Provincial Financial Asset Management Co., Ltd. in December 2016 and currently holds 4.95% of its equity interests. Such investment was accounted for using equity method in the Group's consolidated financial statements. The consideration for the disposal of troubled trusts mentioned above amounted to RMB277.1 million, which was equal to the carrying value of such assets. Save as disclosed in "Appendix I — Accountant's Report — Notes to the Financial Statements — 36 Related Party Transactions", we did not have any other similar transaction with our related parties during the Track Record Period. Following a market-oriented approach, we may continue to dispose of the assets of our troubled trusts to third parties when there are suitable business opportunities and such third parties may include Lucion Group, its associates or our other connected persons. In case any such disposal is considered in the future, it will be conducted in compliance with the prevailing Listing Rules and other applicable regulatory requirements.

Our Trust Business Department in charge of a troubled trust will be primarily responsible for implementing the risk disposition plan. When the Trust Business Department encounters difficulties in the implementation process, our Asset Disposition Department may be involved and utilize their extensive experience and expertise to help implement the risk disposition plan. When we decide to provide liquidity support for a troubled trust, our Proprietary Business Department and other relevant functional departments may be involved as well.

Distribution and Liquidation

The distribution of trust interests and the liquidation of trust is the last step of our trust management. To operate an effective financial system and guarantee the interest of our clients, we have established strict procedures for auditing our trust assets and distributing the trust interests to our clients, which involve Trust Business Departments, Operation Management Department, Planning & Finance Department and Audit Department.

Upon the expiration of the trust, our Trust Business Departments will inform the Planning & Finance Department to compile the financial statements, including balance sheet, income statement, and other relevant notes. Where internal audit is required according to our policies, our Trust Business Departments will submit the statements to the Audit Department for internal audit. The business departments will disclose the distribution/liquidation report based on the financial statements and the audit report to the beneficiaries, and filing with the regulatory authority for their record.

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If the beneficiaries did not raise any objection in relation to our distribution/liquidation report, the business departments will submit the distribution report into trust administration system and also submit to Operation Management Department with the approval of the head of the corresponding business departments. The Operation Management Department will examine whether the distribution report is consistent with the trust contract and compile a detailed list of the trust distribution in our trust administration system, which will be sent to the Planning & Financial department with the approval of the head of Operation Management Department.

For payment of trust interests, the business departments will also provide the distribution/liquidation report, detailed list of trust distribution and other materials required by the custodian bank to the Planning & Finance department. The Planning & Finance Department will verify all the documentation, approve the detailed list of trust distribution and instruct the bank to make the payment to beneficiaries of our trusts.

RISK MANAGEMENT IN OUR PROPRIETARY BUSINESS

We have formulated comprehensive and differentiated risk management measures for different types of proprietary business, including different responsibilities of functional departments and workflows of different proprietary business.

Our risk management organizational structure of proprietary business is integrated into every level of our corporate governance, assuming differentiated and specific responsibilities as follows.

- The Board of Directors, the highest decision-making authority, is responsible for reviewing and approving the annual asset allocation plan that is the core guidance and authorization for our proprietary business operation;
- The Proprietary Business Department is responsible for the daily operation of proprietary business and coordinating with other functional departments;
- The Risk Control Department is responsible for accessing risks and sharing their suggestions during the initiation of our proprietary business, and formulating emergency measures in response to the events occurring during the ex-post management phase;
- The Legal and Compliance Department is responsible for examining whether the establishment, operation and management of our proprietary business is in accordance with the applicable laws, regulations, regulatory requirements and our internal regulations;
- The General Manager's Office Meeting is responsible for making decisions on certain proprietary business as further described below, under the annual asset allocation plan;

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- The Planning and Finance Department is responsible for carrying out the daily accounting, fund transferring and compiling the statistical statements of our proprietary business; and
- The Business Supervision Department is responsible for conducting ex-post inspection of our proprietary projects.

For additional information, see “— Our Risk Management Organizational Structure”.

We have designed different workflows for our different types of proprietary business, based on our different risk exposure.

Long-Term Equity Investments

We have made long-term investments in a number of financial institutions. To select a potential investment project, our proprietary business department will first conduct due diligence and preliminary review of the potential project. After it has selected a potential project, the proprietary business department will submit the due diligence report and related materials to Risk Control Department and Legal & Compliance Department for further review. Once the potential project is approved by our Risk Control Department and Legal & Compliance Department, the General Manager’s Office Meeting will hold meetings to examine and review the project. The last approval required for the long-term equity investment is that of the Board of Directors. The Board of directors will access the operation status, the prospect, the industry policies and the development plan of the target company to make their final decision.

Either Our Board of Directors or General Manager’s Office Meeting may determine to exit a long-term equity investment under any of the following circumstances: (1) where the external conditions, such as the importance of the relevant licenses held by the investee financial institutions, or the shareholding structure of the investee financial institutions have changed significantly; (2) where our counterparties have materially breached the contract; (3) where we anticipate there would be heavy losses during the operation of the investee financial institution; and (4) other circumstances where the Board of Directors or General Manager’s Office Meeting consider necessary.

Investments in Financial Products

We invest in various types of financial products, including equity products and wealth management products. We have adopted different risk measures and workflows for investment in different types of financial products respectively.

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- *Equity Products*

- o Equity Securities

As for the subscription for equity securities in primary market, our Proprietary Business Department will arrange subscriptions within the parameter set forth in our annual asset allocation plan approved by our Board of Directors, after considering several factors including the available fund and the frequency of new issuance in primary market.

As for the purchase of equity securities in secondary market, our Proprietary Business Department will normally select an investment advisor to help us make the trading decision and our General Manager's Office Meeting need to approve the investment advisor to be engaged.

As for the acquisition of equity securities through private placement, our Proprietary Business Department need to submit the potential acquisition to the responsible Vice General Manager, the General Manager's Office Meeting and the Board of Directors to obtain their approval.

- o Mutual Funds

If the amount of investment is less than RMB100 million, the proposed investment need to be approved by General Manager, and if the amount of investment is more than RMB100 million, the proposed investment need to be approved by the General Manager's Office Meeting.

- *Wealth Management Products*

- o Investment Trusts

Our Proprietary Business Department independently determine whether to invest in the units of the collective trust. Where we intend to hold the trust units, it need to be approved by our General Manager, if the amount of investment is less than RMB50 million, or our General Manager's Meeting, if the amount of investment is more than RMB50 million. Where we intend to resell the trust units to other investors, it need to be approved by our responsible Vice General Manager, if the amount is less than RMB100 million, or our General Manager, if the amount is more than RMB100 million.

Our Proprietary Business Department may also independently determine whether to acquire beneficiary interests in trust products or transfer such beneficiary interests to other investors. If the amount of transaction is less than RMB50 million, it needs to be approved by the responsible Vice General Manager, and if the amount of transaction is more than RMB50

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million, our Proprietary Business Department will submit it to the General Manager's Office for final approval.

o Financing Trusts

Our risk management measures and workflows for investment in financing trusts are the same as investment trusts. For more information, see “— Risk Management in Our Proprietary Business — Investments in Financial Products — Wealth Management Products — Investment Trusts”.

o Corporate Bonds and Convertible Bonds

Our Proprietary Business Department may also purchase corporate bonds and convertible bonds in inter-bank market and major securities exchanges. If the amount of such investment is less than RMB100 million, it need to be approved by our General Manager, and if the amount of such investment is more than RMB100 million, it need to be approved by our General Manager's Office Meeting.

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets (other than those measured at fair value through profit or loss) is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the financial assets (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

- significant financial difficulty of the issuer of the financial asset or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;

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- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer of the financial asset operates and indicates that the cost of investments in equity instruments may not be recovered.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

Proprietary Loans

To decide whether to grant proprietary loans to our customers, our proprietary business department will conduct the due diligence on our borrowers focusing mainly on their credit condition, operation status, capital condition and quality of collateral. As for some complicated cases, the Risk Control Department, Legal & Compliance Department may participate in due diligence on site to identify the potential risks and provide their advice respectively. After that, the due diligence report and other relevant materials will be submitted to the General Manager's Office Meeting. Once it is approved by the General Manager's Office Meeting, the project will be submitted to the Business Decision Committee for final approval.

Monetary Assets

- *Placement at Banks and Other Financial Institutions*

We may place our proprietary fund at reputable banks and other financial institutions. If the amount of placement is less than RMB100 million, such transaction need to be approved by the responsible Vice General Manager, and if the amount of placement is more than RMB100 million, such placement need to be submitted to the General Manager for final approval. We categorized our major relationship banks and granted different credit lines by accessing their financial statements and audit report, which is ratified by the General Manager's Office Meeting.

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- *Treasury Notes*

We engage in reverse repurchase of treasury notes business. Our Proprietary Business Department will conduct such business within the parameter set forth in our annual asset allocation plan approved by our Board of Directors, after considering the amount and available period of our idle fund.

MANAGEMENT OF MAJOR RISKS

We are primarily exposed to credit risk, market risk, liquidity risk, compliance risk and operational risk during the ordinary course of business. We monitor and manage such risks mainly through the following measures.

Credit Risk

Credit risk refers to the risk that our clients and counterparties fail to fulfil contractual obligations. Our credit risk arises from our trust business and proprietary business.

The credit risk of our trust business mainly refers to the risk that we, as the trustee, fail to receive our due remuneration which is agreed in the trust contracts. Pursuant to the terms of trust contract, as long as we fulfil our administrative duties stated in trust contract in our capacity as trustee, we are entitled to receive the remuneration specified in the trust contract. We have the priority over the trust beneficiaries to receive a fixed portion remuneration from the trust assets, which is the major source of our income from the trust business.

The majority of our trusts are financing trusts, under which the failure of fulfilling the repayment obligations by our counterparty clients, or the ultimate borrowers, will negatively affect our ability to receive our remuneration. We assess and manage such default risk through comprehensive due diligence, stringent internal approval and trust establishment procedures as well as ex-post inspections and monitoring as discussed above. We obtain third party guarantee and collateral as credit enhancements in order to mitigate the default risk by borrowers and we may ask for additional collaterals in case the value of the original collaterals becomes insufficient. Under circumstances where we assess the likelihood of such default becomes relatively high, we may take necessary resolution and disposition measures in a timely manner to minimize the potential loss.

On the other hand, our proprietary business mainly includes our own debts and equity investments. Our management formulates our annual assets allocation plan which consists of concentration limit for each type of investment and such annual plan shall be approved by our Board of Directors. We maintain a diversified investment portfolio for our proprietary business and have established detailed internal risk management policies and procedures for each type of investment, please refer to “— Risk Management in Our Proprietary Business” above for more details.

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Market Risk

Market risk primarily refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from price risk, interest rates risk and foreign exchange risk. We manage such risks mainly through our diversified and carefully selected investment portfolio, leveraging our stringent investment decision making mechanism, please refer to “— Risk Management in Our Proprietary Business” above for more details.

Liquidity Risk

Liquidity risk refers to the risk that we may not be able to generate sufficient cash resources to settle our obligations in full as the trusts fall due or can only do so on terms that are materially disadvantageous.

We conduct periodical forecast of our cash flows and monitor our short-term and long-term capital needs to ensure sufficient cash reserve and financial assets that are readily convertible into cash. We hold sufficient unrestricted cash at bank and on hand to satisfy the capital need for our daily operations.

In addition, although we may provide liquidity support to troubled trusts under limited circumstances, we have no legal obligation to provide such liquidity support to all of the trusts established and managed by us, see “— Risk Management in Our Trust Business — Ex-post Risk Management — Risk Monitoring, Risk Mitigation and Resolution and Risk Management” for more details. Our management is of the view that we are not subject to any significant liquidity risk given the nature of our business activities.

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, discipline penalties and loss of property or reputation because our business activities or those activities of our employee violate laws, regulations or rules. We have formulated various compliance rules and policies and established a dedicated Legal & Compliance Department which monitors the overall compliance status of each aspects of our daily operation. Our Legal & Compliance Department also continuously tracks the latest developments in relevant laws, regulations and policies and submits proposals on the formulation and amendments of relevant internal regulations and policies to relevant departments. Moreover, we organize various training programs for employees at different departments based on the nature of their respective business activities and periodically provide updates relating to current legal and regulatory requirements and our internal policies on an on-going basis.

RISK MANAGEMENT

During the Track Record Period and as of the Latest Practicable Date, except as disclosed in “Business — Legal and Regulatory Proceedings — Administrative Proceedings, Penalties and Measures”, we had not received any administrative penalties due to non-compliance with any laws or regulations and none of our Directors was involved in any material administrative violations, legal proceedings or penalties. During the Track Record Period, we encountered incidents where our employee and previous investment advisor to some of our trust schemes were involved in lawsuits, please refer to “Risk Factors — Risks Relating to Our Business and Industry — Our reputation may be adversely and materially affected and we may suffer other losses if we are not able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties in a timely manner” for more details. Neither our Company nor any of our trusts was involved in the above-mentioned lawsuits or was materially and adversely affected by these incidents. After the incidents, we organized various training programs for our employees to reaffirm and enhance their awareness of our code of ethics and other internal control policies. We also reviewed our criteria and procedures in selecting investment advisors.

Operational Risk

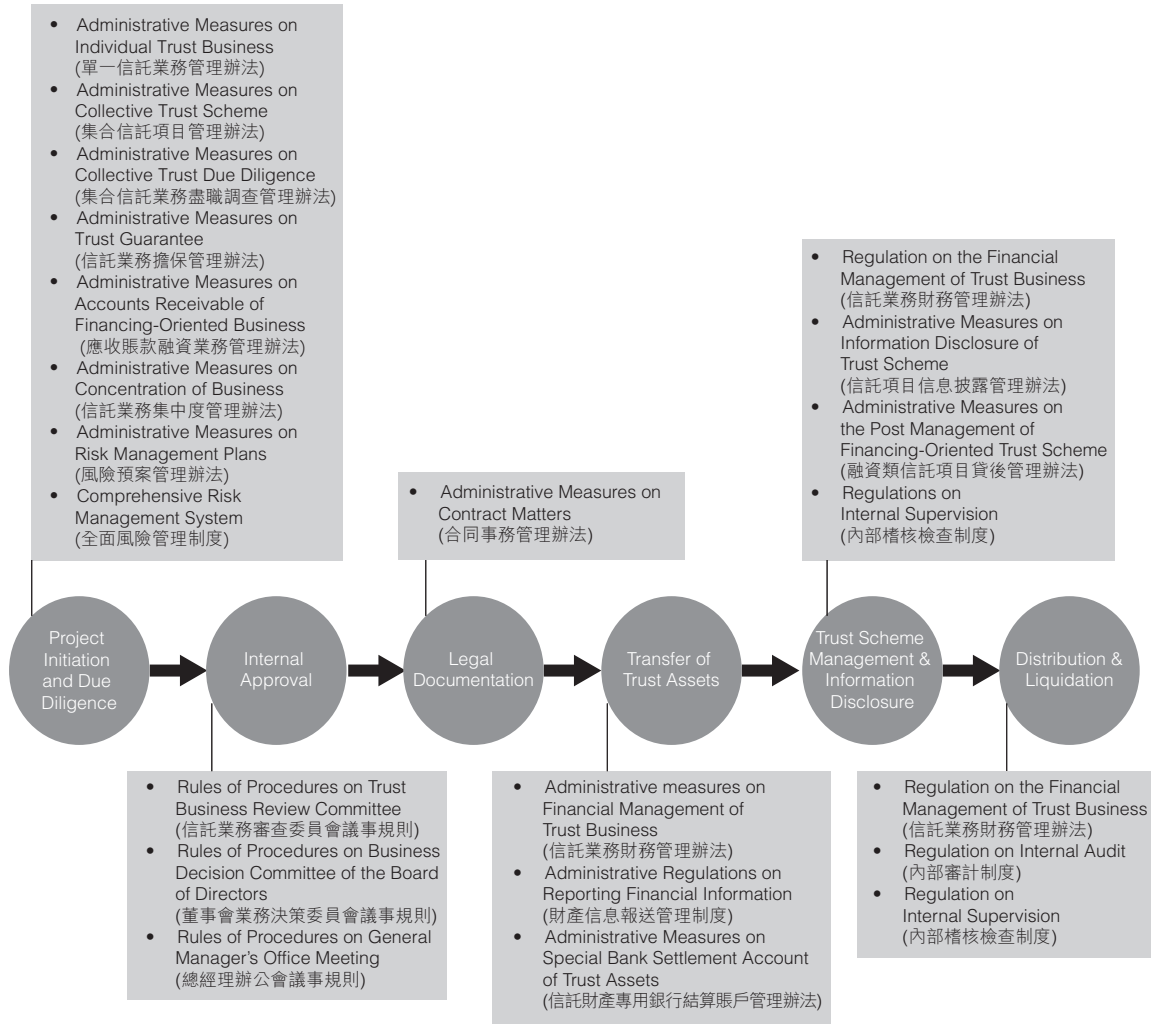
Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system. To minimize the operational risk, we have implemented strict operational risk control mechanisms to reduce the risks of technical irregularities or human error and enhance the effectiveness of operational risk management. In addition, our Audit Department regularly conducting internal auditing and evaluating the effectiveness of operational risk management.

RISK MANAGEMENT REGULATIONS AND POLICIES

We have put in place regulations and policies in every aspect and stage of our business operation. These internal regulations constitute a complete risk management system.

RISK MANAGEMENT

The main regulations and policies applicable to our trust business may be illustrated as follows.



Our main regulations and policies governing our proprietary business include *Rules of Procedures on Business Decision Committee of the Board of Director* (董事會業務決策委員會議事規則), *Rules of Procedures on General Manager's Office Meeting* (總經理辦公會議事規則), *Administrative Measures on Proprietary Long-Term Equity Investments* (自有資金長期股權投資業務管理辦法), *Administrative Measures on Proprietary Securities Investment* (自營證券業務管理辦法), *Administrative Measures on Proprietary Loans* (自有資金貸款業務管理辦法), *Administrative Measures on Proprietary Financial Products Investment* (自有資金認購理財產品管理辦法), and *Administrative Measures on Inter-bank Lending and Borrowing* (自有資金同業拆借管理辦法).

RISK MANAGEMENT

ANTI-MONEY LAUNDERING MANAGEMENT

We perform our anti-money laundering obligations in accordance with applicable anti-money laundering laws and regulations of the PRC and have adopted our own *Administrative Measures on Anti-Money Laundering* (反洗錢管理辦法). Such regulations set out our anti-money laundering system and regulate our anti-money laundering management, ensuring that we can perform our anti-money laundering obligations in accordance with applicable anti-money laundering laws and regulations.

We have established an Anti-Money Laundering Working Group in charge of anti-money management, appointed our General Manager as the chairperson of the group, and Vice General Manager 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. We also established an Anti-Money Laundering office under the Anti-Money Laundering Working Group, consisting of the heads of Planning & Finance Department, Risk Control Department, Operation Management Department, Legal & Compliance Department, Wealth Management Center and Information Technology Department, which is responsible for organizing and undertaking anti-money laundering management.

Pursuant to our own *Administrative Measures on Anti-Money Laundering*, we have established a client identification system, which requires our employees to effectively verify and constantly update the identification information of our clients. For example, our employees are required to conduct comprehensive background due diligence on the potential clients as possible, including verifying the validity of the identification documents provided, such as corporate certification or personal identification card for corporate and individual clients, respectively, as well as understanding their sources of funds, liquidity, and potential transaction purposes. Our employees are also required to constantly update such clients' identification information during daily operation, particularly in case of any material change. They shall commence further investigations if any irregularity is identified in connection with the clients' operational or financial status, or their usual transaction patterns, or there is any discrepancy between new information available to us and the information previously provided to us, or any suspicious activities involving money laundering or terrorist financing. We may terminate the business relationship with a client if it fails to provide us with most updated and valid identification documentation in a certain period upon our request. Our clients' identification information is recorded and archived in accordance with the relevant PRC laws. Such identification information and the information and materials relating to our transactions and accounts are kept for at least five years after the relevant party ceases to be a client of us.

Furthermore, our own *Administrative Measures on Anti-Money Laundering* also specify certain criteria of demining a suspicious transaction and establish a suspicious transaction reporting system. Based on these criteria, our business departments are required to immediately report to our Anti-Money Laundering office if they identify any suspicious transaction during their daily operation. The Anti-Money Laundering office is required to conduct investigation and analysis on the reported transaction. Once

RISK MANAGEMENT

confirmed, it is required to report such transaction to our Anti-Money Laundering Working Group, which shall also report to the PRC Anti-Money Laundering Monitoring and Analysis Center led by the PBOC within 10 days of the transaction in accordance with the relevant laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we had never been engaged in, or knowingly assisted, any money laundering activities. For risks regarding money laundering activities, see “Risk Factors — We may not be able to detect money laundering and other illegal or improper activities in our business operations on a timely basis”.

INTERNAL CONTROL SYSTEM

We have established an internal control system composed of the regulation system, the benchmark system and the assessment system.

- We have established an internal control assessment system focusing on execution assessment. We facilitate the improvement of our internal control system by comprehensively reviewing relevant processes against internal control rules and benchmarks and requesting relevant parties to address all the issues identified.
- Our Audit Department organizes and coordinates our annual internal control audit under the leadership of the Audit Committee of the Board of Directors.
- We broadly collect evidence on the effectiveness of our internal control system’s design and operation as well as analyze and identify internal control deficiencies.

During the Track Record Period, we did not identify any material deficiencies in our internal control system.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital, as a group of persons, will be together entitled to exercise in general meetings voting rights attached to Shares representing approximately 51.95% of the issued share capital of our Company. Accordingly, Lucion Group, Luxin Venture Capital and Shandong High-Tech Venture Capital will continue to be our Controlling Shareholders under the Listing Rules. Each of Luxin Venture Capital and Shandong High-Tech Venture Capital is a subsidiary (direct or indirect) of Lucion Group.

DELINEATION OF BUSINESS

Apart from its interest in our Company, Lucion Group is also entitled to exercise, or control the exercise of, 10% or more of the voting power at the general meetings of certain companies carrying out the following businesses:

<u>Type of Business</u>	<u>Delineation between such businesses and our Company's businesses</u>
Venture capital	<ul style="list-style-type: none">• See “— 1. Luxin Venture Capital and Luxin Culture Venture Capital” below.
Financial services (other than trust and proprietary investment businesses): investment guarantee, small loan, pawn, financial leasing, rural commercial banking, insurance and non-performing assets management	<ul style="list-style-type: none">• See “— 2. Other Financial Services Companies” below.
Infrastructure and culture and tourism	<ul style="list-style-type: none">• These businesses in which Lucion Group are interested are in completely different industries from the industry in which our Company engages.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

1. Luxin Venture Capital and Luxin Culture Venture Capital

Luxin Venture Capital, one of our Controlling Shareholders, is listed on the Shanghai Stock Exchange and principally engaged in venture capital investment in the PRC. Luxin Culture Venture Capital, a subsidiary of Lucion Group, is principally engaged in venture capital investment in the culture industry in the PRC. Both Luxin Venture Capital and Luxin Culture Venture Capital invest in equities or equity-linked securities of unlisted companies.

Key financial information of us, Luxin Venture Capital and Luxin Culture Venture Capital during the Track Record Period are summarized below:

RMB million

	Year ended December 31,		
	2014	2015	2016
Operating income			
– The Company	1,766	1,786	1,327
– Luxin Venture Capital ⁽¹⁾	235	191	186
– Luxin Culture Venture Capital ⁽²⁾	7	7	7
Operating profit			
– The Company	1,286	1,346	1,077
– Luxin Venture Capital ⁽¹⁾	390	412	524
– Luxin Culture Venture Capital ⁽²⁾	3	6	6
As of December 31,			
	2014	2015	2016
Total assets			
– The Company	7,635	8,171	8,648
– Luxin Venture Capital ⁽¹⁾	5,058	5,319	5,633
– Luxin Culture Venture Capital ⁽²⁾	93	108	113
Total equity			
– The Company	5,397	5,998	6,341
– Luxin Venture Capital ⁽¹⁾	3,278	3,427	3,718
– Luxin Culture Venture Capital ⁽²⁾	54	60	65

Sources:

⁽¹⁾ Annual reports published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>)

⁽²⁾ PRC audited financial statements

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The board of directors of Luxin Venture Capital and Luxin Culture Venture Capital comprised of the following members:

Luxin Venture Capital	Luxin Culture Venture Capital
<ul style="list-style-type: none"> • Wang Biao (王 颢) (chairman, general manager) • Zhao Zikun (趙子坤) (director) • Wang Xudong (王旭冬) (director) • Liu Bozhe (劉伯哲) (director, vice general manager) • Li Gaofeng (李高峰) (director) • Guo Quanzhao (郭全兆) (independent director) • Ren Hui (任輝) (independent director) • Yu Shaoming (于少明) (independent director) • Liu Jiankang (劉健康) (independent director) 	<ul style="list-style-type: none"> • Mu Tong (穆彤) (chairman) • Li Xiaopeng (李曉鵬) • Xiu Yufeng (修玉峰) • Duan Xiaoxu (段曉旭) • Zou Jun (鄒軍)

According to biographical information disclosed in the 2016 annual report of Luxin Venture Capital, four out of the five directors (excluding independent directors) of Luxin Venture Capital have practical experience in investment or finance-related industries.

Potential competition may exist between (i) our proprietary investment business (in respect of long-term equity investments), our actively managed indirect investment trusts and investment-oriented administrative management trusts on the one hand, and (ii) the businesses of Luxin Venture Capital and Luxin Culture Venture Capital on the other hand, in that we (through our trust schemes and proprietary investment business), Luxin Venture Capital and Luxin Culture Venture Capital may pursue the same investment targets.

Key information concerning the relevant businesses is summarized below:

- ***Luxin Venture Capital and Luxin Culture Venture Capital***

<i>RMB million</i>	Year ended/as of December 31,		
	2014	2015	2016
<i>Luxin Venture Capital</i>⁽¹⁾			
a. Long-term equity investment ⁽³⁾ , carrying value			
– Equity method investment	2,587	2,427	2,484
– Available-for-sale investment	1,246	1,592	2,068
Sub-total	3,832	4,019	4,552

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

<i>RMB million</i>	Year ended/as of December 31,		
	2014	2015	2016
b. Investment income from long-term equity investment ⁽⁴⁾			
– Equity method investment	389	380	288
– Available-for-sale investment	65	31	152
Sub-total	<u>454</u>	<u>411</u>	<u>440</u>
c. <i>Return on long-term equity investment</i> ⁽⁵⁾ .	11.9%	10.2%	9.7%
d. Total assets under management	8,850	9,600	12,600
<i>Luxin Culture Venture Capital</i>⁽²⁾			
a. Long-term equity investment, carrying value			
– Equity method investment	7	19	21
– Available-for-sale investment	82	82	82
Sub-total	<u>89</u>	<u>101</u>	<u>103</u>
b. Investment income from long-term equity investment ⁽⁴⁾			
– Equity method investment	1	5	5
– Available-for-sale investment	–	–	1
Sub-total	<u>1</u>	<u>5</u>	<u>6</u>
c. <i>Return on long-term equity investment</i> ⁽⁵⁾ .	1.1%	5.0%	5.8%
d. Total assets under management	375	575	725

- ***Our Company***

<i>RMB million</i>	Year ended/as of December 31,		
	2014	2015	2016
a. Long-term equity investment, carrying value			
– Equity method investment	695	1,028	1,566
– Available-for-sale investment	583	360	348
Sub-total	<u>1,278</u>	<u>1,388</u>	<u>1,914</u>

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

<i>RMB million</i>	Year ended/as of December 31,		
	2014	2015	2016
b. Investment income from long-term equity investment ⁽⁴⁾			
– Equity method investment	94	175	136
– Available-for-sale investment	14	12	38
Sub-total	108	187	174
c. <i>Return on long-term equity investment</i> ⁽⁵⁾ .	8.5%	13.5%	9.1%
d. actively managed indirect-investment trusts			
– Total trust AUM	17,726	8,062	9,902
– <i>As % of total AUM</i>	5.4%	3.3%	3.9%
– Trustee remuneration generated	154	122	110
– <i>As % of total operating income</i>	8.7%	6.8%	8.3%
– Return on investment ⁽⁶⁾	9.6%	13.3%	13.7%
e. investment-oriented administrative management trusts			
– Total trust AUM of investment-oriented administrative trusts investing in limited liability partnership	5,313	1,816	3,634
– <i>As % of total AUM</i>	1.62%	0.75%	1.43%
– Trustee remuneration generated	8	6	6
– <i>As % of total operating income</i>	0.45%	0.34%	0.45%

Notes:

1. Annual reports published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>)
2. PRC audited financial statements
3. Refers to investment in equities or equity-linked securities of unlisted companies
4. Investment income from long-term equity investment comprised of (i) share of profit/(loss) from equity-accounted investments, and (ii) realized gain/(loss) on equity-accounted and available-for-sale investments.
5. Return on long-term equity investment equals to investment income from long-term equity investment, divided by carrying value of long-term equity investment
6. Return on investment for each of our actively managed indirect-investment trusts equals to distributions to trustor clients during the year, divided by trust AUM at that year end. The above average return rate is weighted by year end AUM of trusts involved.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

No material competition between our Group and Luxin Venture Capital and Luxin Culture Venture Capital

Nevertheless, it is considered that the potential competition is unlikely to be material for the following reasons and even if there is any competition, the terms on which we are to compete with Luxin Venture Capital and Luxin Culture Venture Capital would be no different from those of other market players:

a. Different contribution to investee companies

Being a limited partner in private equity investment funds, our indirect investment trusts are not involved in the selection and management of investee companies. Their contribution to investee companies is mainly in the form of capital commitment. Being general partners in private equity investment funds, apart from capital commitments, contribution of Luxin Venture Capital and Luxin Culture Venture Capital are mainly in the form of professional advice on positioning, management as well as business and financing strategies to investee companies.

b. Different principal activities and economic benefit derived

We, being a trustee, are principally engaged in the following aspects of our actively managed indirect-investment trusts: (i) selection of proper investment firms to partner with, (ii) administration and management of indirect-investment trusts, and (iii) protection of trust assets and interests of trustor clients. For some of our investment-oriented administrative management trusts investing in limited liability partnership (which may in turn invest in equities of unlisted companies), being a trustee, we merely provide trust administration-related services and accept entrustment of trust assets from trustors and invest such trust assets in limited partnerships designated by the trustors. Our economic benefit derived from the above activities is primarily in the form of trustee remuneration, which is mainly as a percentage of the trust AUM.

Luxin Venture Capital and Luxin Culture Venture Capital, being professional investment management firms, are principally engaged in (i) searching for investment targets, (ii) performing due diligence on investment targets, and (iii) negotiating transaction terms and structure with existing shareholders of investee companies. Their economic benefit derived from the above activities is primarily in the form of capital appreciation arising from proprietary monies invested.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

c. Independent channel in sourcing and different focus in investment targets

Our actively managed indirect-investment trusts have our own channel in sourcing investment targets, primarily via professional investment firms we partner with, which is operating independently from those of Luxin Venture Capital and Luxin Culture Venture Capital. Each of our Company, Luxin Venture Capital and Luxin Culture Venture Capital has its own independent system and database to record information about investee companies and Luxin Venture Capital and Luxin Culture Venture Capital do not share such information with third parties, including us. There are also measures in place in our Company to ensure there is no leakage of information about investee companies. Furthermore, our channel would approach investment targets independently and does not share information regarding investee companies with Luxin Venture Capital and Luxin Culture Venture Capital. In addition, our Company does not undertake joint investments with Luxin Venture Capital and Luxin Culture Venture Capital, and none of the investments of our indirect investment trusts is contingent upon, or bundled with, investment by Luxin Venture Capital or Luxin Culture Venture Capital.

Moreover, the industry focus of our long term equity investment is different from those of Luxin Venture Capital and Luxin Culture Venture Capital in that our long term equity investment focuses on financial institutions. Luxin Venture Capital invested in enterprises engaged in a variety of industries, including manufacturing, modern agriculture, high-tech and emerging industries while Luxin Culture Venture Capital invested primarily in enterprises engaged in culture industries.

d. Different client base and distribution channel

HNWIs accounted for more than 95% of the total number of our trustor client accounts during the Track Record Period. In contrast, the investing clients of Luxin Venture Capital and Luxin Culture Venture Capital typically consist of corporate clients and government guided funds. For marketing and sales channels, we place units of our collective trusts to our trustor clients primarily through commercial banks in China as our distribution channel. Luxin Venture Capital and Luxin Culture Venture Capital develop their investing clients directly.

e. Different level of involvement in investment targets

Being a trustee of administrative management trusts, we merely provide trust administration-related services and accept entrustment of trust assets from trustors and use such trust assets to provide financing for the projects or enterprises designated by the trustors, and merely receive trustee remuneration. In contrast, Luxin Venture Capital and Luxin Culture Venture Capital are actively involved in the management of assets under its management and need to actively source investment targets, and may benefit from the capital appreciation of the investment targets.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

f. Corporate governance measures

Directors of our Company are fully aware of their duties owed to their shareholders (including the minority shareholders). They will ensure our Company is operating independently from Luxin Venture Capital or Luxin Culture Venture Capital and in the best interests of our shareholders as a whole. Luxin Venture Capital, listed on the Shanghai Stock Exchange with its own minority shareholders, is also subject to listing rules and other corporate governance requirements imposed by the CSRC and the Shanghai Stock Exchange. Therefore, the respective boards of Luxin Venture Capital and our Company will, respectively, ensure Luxin Venture Capital and our Company are operating independently from each other which would be in the best interests of the shareholders of Luxin Venture Capital and our Company, respectively. In addition, according to our Articles of Association, (i) the quorum of a Board meeting approving any proposal in which a Director has a material interest shall be a majority of the Directors who are not interested in such proposal and (ii) if a substantial Shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting rather than a written resolution and independent non-executive Directors who have no material interest in the transaction should be present at that Board meeting.

During the Track Record Period, Luxin Venture Capital and Luxin Culture Venture Capital did not compete with us for investment opportunities. As of the Latest Practicable Date, the Company has no intention to pursue the same investment opportunities as Luxin Venture Capital and Luxin Culture Venture Capital do.

Independence from Luxin Venture Capital and Luxin Culture Venture Capital

Our Directors are of the view that we are able to carry on our business independently of, and at arm's length from the businesses carried on by Luxin Venture Capital and Luxin Culture Venture Capital.

None of our Directors and senior management members holds any position in Luxin Venture Capital or Luxin Culture Venture Capital.

Reasons for the Businesses of Luxin Venture Capital and Luxin Culture Venture Capital to Be Conducted Separately

The businesses carried on by Luxin Venture Capital and Luxin Culture Venture Capital require different business models and resources and are not appropriate to be carried on by our Company. Thus, Lucion Group does not have the intention to inject the businesses carried on by Luxin Venture Capital and Luxin Culture Venture Capital into our Company in the future.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

2. Other Financial Services Companies

Apart from the interest in our Company, Lucion Group is also entitled to exercise, or control the exercise of, 10% or more of the voting power at the general meetings of certain companies principally engaged in a variety of financial services (other than the trust and proprietary investment businesses) (collectively, the “Other Financial Services Companies”). The following table sets forth a summary of the types of financial services (collectively, the “Other Financial Services”) and principal business activities of the Other Financial Services Companies:

Type of Other Financial Services	Description of Principal Business Activities
Investment guarantees	provision of guarantees for financing activities of micro, small to medium scale enterprises (including but not limited to loan guarantee, bills acceptance guarantee, trade financing guarantee, project financing guarantee and letter of credit guarantee)
Small loan	provision of small loans and entrusted loans to micro, small to medium scale enterprises
Pawn	provision of pawn loans whereby personal properties, property rights or real estate are used as collaterals for the security of such loans
Financial leasing	provision of financial leasing services including direct financing leasing, sale-leaseback transactions, and entrusted leasing
Rural commercial banking	provision of corporate banking services, retail banking services and treasury services
Non-performing assets management	acquisition or provision of custody services to the non-performing assets (including but not limited to debt, equity investment, movable properties and real estates) of financial or non-financial institutions, in the form of debt restructuring and collecting, debt-to-equity swaps, merger and restructure, and asset securitization

We are of the view that Lucion Group’s interests in the Other Financial Services Companies do not and, will not, give rise to any direct or indirect competition between our Company and Lucion Group and/or its close associates as the business model of each of the Other Financial Services Companies is different from that of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As further described in the table above, the principal business activities of the Other Financial Services Companies are engaging in Other Financial Services which are distinct from those of our Company, primarily including (i) operating the trust business where we accept entrustment of funds and property from our trustor clients and manage such entrusted funds and property to satisfy our trustor clients' investment and wealth management needs as well as our counterparty clients' financing needs; and (ii) operating the proprietary business where we allocate our proprietary assets into different asset classes and investing in businesses with strategic value to our trust business.

For more details of the business model and client base of our Company, see "Business — Our Businesses", "Business — Our Trust Business — Our Clients" and "Business — Our Proprietary Business".

COMPETING INTERESTS

Mr. Xiao Hua (肖華), a non-executive Director, is the chairman of Kunlun Trust Co., Ltd. (昆侖信託有限責任公司) ("Kunlun Trust"), whose principal business is to manage assets as trustees on behalf its clients in the PRC, which competes with our business. Kunlun Trust is a non-wholly owned subsidiary of CNPC Assets Management, a substantial Shareholder which will hold approximately 18.75% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised). According to Kunlun Trust's audited accounts prepared in accordance with the China Accounting Standards for Business Enterprises as included in its 2016 annual report, Kunlun Trust recorded a revenue of approximately RMB1,191 million for the year ended December 31, 2016, with net assets of RMB4,974 million and trust AUM of RMB142.5 billion as of December 31, 2016. Except for (i) CNPC Assets Management's shareholding in our Company, (ii) Mr. Xiao Hua's directorship in our Company and (iii) the position held by Mr. Chen Yong (陳勇) (who holds several positions in CNPC Assets Management and Kunlun Trust as disclosed in "Directors, Supervisors and Senior Management — Supervisors") as a Supervisor, our Company does not have any other relationship with CNPC Assets Management or Kunlun Trust. Thus, our Directors are of the view that we are capable of carrying out our business independently from CNPC Assets Management and Kunlun Trust. In addition, our Company will adopt certain corporate governance measures to manage the conflict of interest arising from the competing interest of Mr. Xiao Hua. See "— Corporate Governance Measures" for details.

Save as disclosed above, each of our Controlling Shareholders and Directors confirms that he, she or it does not have any interest in a business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

Lucion Group has undertaken to our Company on November 16, 2017 (the “Non-competition Undertaking”), that it, as the Controlling Shareholder will not and will procure its close associates (except for our Company and (if any) the subsidiaries of our Company) not to, carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved or interested in any business which compete or are likely to compete, alone or with other persons, directly or indirectly, representing or assisting or acting in concert with other persons, with our businesses (the “Restrained Businesses”) within the PRC (the “Restrained Area”, for this purpose only, excluding Hong Kong, Macau and Taiwan).

The Non-competition Undertaking does not apply to (i) the holding of any equity interests in our Company and (if any) the subsidiaries of our Company; (ii) the holding of equity interest in and the businesses carried on by Luxin Venture Capital (which is listed on the Shanghai Stock Exchange) and Luxin Culture Venture Capital; and (iii) the holding of securities in a company that is engaged in the Restrained Businesses and whose securities are listed on any stock exchange, provided that Lucion Group or its close associates do not individually or in aggregate hold or control the voting rights in respect of 10% or more of the issued share capital of such company and do not have any right to control the composition of the board of directors of such company in any way.

Option for New Business Opportunities

Lucion Group has undertaken in the Non-competition Undertaking, that during the term of the Non-competition Undertaking and within the Restrained Area, if Lucion Group or its close associates (except for our Company and (if any) the subsidiaries of our Company) become aware of, notice, are recommended or provided with a new business opportunity which will directly or indirectly compete or is likely to compete with the Restrained Businesses, including but not limited to the opportunities which are the same or similar to the Restrained Businesses (the “New Business Opportunities”), Lucion Group shall and shall procure its close associates (except for our Company and (if any) the subsidiaries of our Company) to refer or recommend the New Business Opportunities to our Company, subject to relevant laws, regulations or contractual arrangements with third parties, based on the following procedures:

- (i) Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) shall provide us with a written notification, which includes all reasonable and necessary information known by Lucion Group or its close associates (except for our Company and (if any) the subsidiaries of our Company) (including the nature of the New Business Opportunities and necessary information relating to the cost of relevant investment or acquisition), for us to consider whether the New Business Opportunities constitute competition or potential competition to the Restrained Business and whether engaging in such New Business Opportunities would be in the best interests of our Company and our Shareholders as a whole (the “Offer Notice”); and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) We shall respond to Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) within 30 days upon receipt of the Offer Notice. If we fail to reply within the above period, we shall be deemed to have abandoned such New Business Opportunities. If we determine to take up the New Business Opportunities, Lucion Group or its close associates (except for our Company and (if any) the subsidiaries of our Company) would be obliged to offer such New Business Opportunities to us and would make their best efforts to assist us to acquire such New Business Opportunities with the same or more preferential terms.

Lucion Group's Further Undertaking

Lucion Group has further undertaken that, subject to relevant laws, regulations or contractual arrangements with third parties:

- (i) Upon our request, it and its close associates (except for our Company and (if any) the subsidiaries of our Company) shall provide us (including our independent non-executive Directors) all necessary information for the implementation of the Non-competition Undertaking;
- (ii) It will allow our authorized representatives or our auditors to have reasonable access to the financial and corporate information necessary for its transactions with third parties, which would assist with our judgments in respect of whether Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) have complied with the Non-competition Undertaking; and
- (iii) It will ensure that, within 10 working days of receipt of our written request, necessary confirmation shall be made in writing as to the performance by Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) under the Non-competition Undertaking and Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) shall allow such confirmation to be included in our annual reports.

Termination of the Non-competition Undertaking

The Non-competition Undertaking will become effective upon Listing and remain in force. It will be terminated upon the earlier of:

- (i) our H Shares no longer being listed on the Stock Exchange; or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) individually or in aggregate, directly and/or indirectly, holding less than 30% of the voting rights or control of exercising voting rights in any of our Shareholders' meeting, or Lucion Group ceasing to be regarded as the Controlling Shareholder.

Based on the legally binding obligations of Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) as set out in the Non-competition Undertaking and the related grant of the options for New Business Opportunities, as well as the information sharing and other mechanisms in place as described above to monitor compliance by Lucion Group and/or its close associates (except for our Company and (if any) the subsidiaries of our Company), our Directors are of the view that we have taken all appropriate and practicable measures to ensure compliance by Lucion Group and its close associates (except for our Company and (if any) the subsidiaries of our Company) with its obligations under the Non-competition Undertaking.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and their respective close associates after the Global Offering.

Management Independence

As of the date of this prospectus, the Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth the positions held by our Directors and senior management in Lucion Group and its close associates:

<u>Name of Director</u>	<u>Position held in our Company</u>	<u>Position with our Controlling Shareholders or their close associates</u>
Ms. Wang Yingli (王映黎)	Chairperson of the Board and executive Director	a member of the standing committee of the communist party committee of Lucion Group; not involved in the day-to-day business operations of Lucion Group

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Name of Director	Position held in our Company	Position with our Controlling Shareholders or their close associates
Mr. Jin Tongshui (金同水)	Non-executive Director	Chairperson of the board of directors of Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司), which is owned as to approximately 30.86% by Lucion Group

Except for the above-mentioned individuals, the remaining Directors and senior management of our Company are independent from our Controlling Shareholders. Our management and operational decisions are made by all of our executive Directors and senior management, most of whom have served our Company for a long time and have substantial experience in the industry in which we are engaged. The balance of power and authority is ensured by the operation of the senior management and our Board. See “Directors, Supervisors and Senior Management” for further details.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and the Shareholders as a whole. Further, we believe our independent non-executive Directors bring independent judgment to the decision-making process of our Board. See “— Corporate Governance Measures” for further details.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to perform the managerial role in our Company independently.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company holds all relevant licenses necessary to carry on our businesses, and has sufficient capital, technologies, access to clients, transaction counterparties and suppliers and employees to operate our business independently from our Controlling Shareholders. In addition, our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

Our Company has entered into two trademark licensing agreements with Lucion Group pursuant to which our Company is licensed to use certain registered trademarks and trademarks in application of Lucion Group. As our Company does not rely on the branding of Lucion Group in its daily business operations, the Directors are of the view that the trademark licensing arrangements do not affect the operational independence of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We have also in our ordinary course of business entered into certain transactions with Lucion Group and/or its associates. See “Connected Transactions” for details. Our Directors are of the view that such transactions do not affect our operational independence.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

Financial Independence

Our Company has our own internal control, accounting and financial management system and accounting and finance department, and we make financial decision according to our own business needs.

In addition, we do not rely on our Controlling Shareholders and/or their respective close associates to provide financial assistance to our Company. We have independent access to third party financing and our Directors believe that, if necessary, we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Our Directors confirm that, as of the Latest Practicable Date, there are no subsisting loans, guarantees or pledges provided by our Controlling Shareholders and/or their respective close associates to our Company.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there will be adequate corporate governance measures in place to manage conflicts of interest after the Listing. In particular, we will implement the following measures:

- (a) we will amend our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association will provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) according to the Articles of Association, the quorum of a Board meeting approving any proposal in which a Director has a material interest shall be a majority of the Directors who are not interested in such proposal;
- (c) if a substantial Shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical Board meeting rather than a written resolution. Independent non-executive Directors who have no material interest in the transaction should be present at that Board meeting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (d) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in “Directors, Supervisors and Senior Management — Directors — Independent Non-executive Directors”;
- (e) the decisions on matters reviewed by our independent non-executive Directors will be disclosed in our annual reports; and
- (f) we have appointed Haitong International Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

CONNECTED TRANSACTIONS

We have entered into a number of agreements or transactions with our connected persons in our ordinary and usual course of business. Upon the listing of our H Shares on the Stock Exchange, the transactions disclosed under this section will constitute continuing connected transactions under the Listing Rules.

The historical amounts disclosed for the financial years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 in respect of the continuing connected transactions in this section constitute only a portion of the amounts disclosed in respect of transactions with related parties for the financial years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 in Note 36 to the financial information in the Accountant's Report set forth in Appendix I to this prospectus. The remaining portion of the amounts disclosed in Note 36 to the financial information in the Accountant's Report is attributable to: (i) transactions between our Company and the associates of Lucion Group that will not continue following the Listing Date and therefore do not constitute continuing connected transactions requiring disclosure in this section; and (ii) transactions between our Company and our related parties which are not our connected persons as defined under the Listing Rules.

Set out below is a brief summary of our continuing connected transactions and the relevant waivers sought:

Transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31, (RMB'000)
Fully-exempt continuing connected transactions			
1. Trademark Licencing Agreements with Lucion Group	14A.76(1)	Not applicable	–
2. Individual Connected Persons' Personal Investment in Trusts Managed by our Company	14A.76(1)	Not applicable	–
3. Framework Outdoor Advertising Agreement with Shandong Luxin Advertisement Co., Ltd.	14A.76(1)	Not applicable	–

CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31, (RMB'000)
Non-exempt continuing connected transactions			
I. Continuing connected transactions subject to the annual reporting and announcement requirements			
1. Property Management Service Agreements with Shandong Luxin Hengsheng Property Management Co., Ltd.	14A.76(2), 14A.35	Waiver from the announcement requirement	2017: 8,704 2018: 8,704 2019: 8,704
2. Framework Trust Consulting Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.	14A.76(2), 14A.35	Waiver from the announcement requirement	2017: 5,600 2018: 6,700 2019: 8,040
3. Framework Information Technology Service Agreement with Luxin Science and Technology Co., Ltd	14A.76(2), 14A.35	Waiver from the announcement requirement	2017: 12,000 2018: 16,000 2019: 20,000
4. Framework Placement Agency Agreement with Kunlun Trust Co., Ltd.	14A.76(2), 14A.35	Waiver from the announcement requirement	2017: 30,000 2018: 45,000 2019: 54,000

CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31, (RMB'000)
II. Continuing connected transactions subject to the annual reporting, announcement requirements, circular and independent Shareholders' approval requirements			
1. Management of Assets Entrusted by CNPC Assets Management and/or its associates	14A.35, 14A.36 and 14A.46	Waiver from the announcement, circular and independent Shareholders' approval requirements	Trustee's remuneration to be received from the trusts of which CNPC Assets Management and its associates are trustors: 2017: 54,000 2018: 90,000 2019: 90,000 Maximum outstanding balance of the assets and funds to be entrusted by CNPC Assets Management and its associates as trustors: 2017: 6,000,000 2018: 10,000,000 2019: 10,000,000
2. Management of Assets Entrusted by Lucion Group and/or its associates	14A.35, 14A.36 and 14A.46	Waiver from the announcement, circular and independent Shareholders' approval requirements	Trustee's remuneration to be received from the trusts of which Lucion Group and its associates are trustors: 2017: 123,000 2018: 184,500 2019: 221,400 Maximum outstanding balance of the assets and funds to be entrusted by Lucion Group and/or its associates as trustors: 2017: 10,000,000 2018: 15,000,000 2019: 18,000,000

CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31, (RMB'000)
3. Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by our Company	14A.35, 14A.36 and 14A.46	Waiver from the announcement, circular and independent Shareholders' approval requirements	Trustee's remuneration to be received from the trusts providing financing to Lucion Group and its associates: 2017: 60,000 2018: 80,000 2019: 96,000 Maximum outstanding balance (including interests accrued thereon) of the loans or financing extended to Lucion Group and its associates: 2017: 15,000,000 2018: 20,000,000 2019: 24,000,000

CONNECTED PERSONS

Pursuant to Chapter 14A of the Listing Rules, our Directors, Supervisors, substantial Shareholders and chief executives, any person who was our Director within 12 months preceding the Listing Date and any of their respective associates are connected persons of our Company.

The following persons, among others, will be our connected persons upon Listing:

- **Lucion Group and its associates:**
 - Lucion Group, a substantial Shareholder and hence our connected person;
 - Shandong Financial Assets Management Co., Ltd. (山東省金融資產管理股份有限公司), a company limited by shares and incorporated in the PRC, which is a 30%-controlled company held by Lucion Group and hence our connected person;
 - Shandong Luxin Advertisement Co., Ltd. (山東魯信廣告有限公司), a limited liability company incorporated in the PRC, which is a non-wholly owned subsidiary of Lucion Group and hence our connected person;

CONNECTED TRANSACTIONS

- Shandong Luxin Culture and Media Investment Group Co., Ltd. (山東魯信文化傳媒投資集團有限公司), a limited liability company incorporated in the PRC, which is a non-wholly owned subsidiary of Lucion Group and hence our connected person;
- Shandong Luxin Hengsheng Property Management Co., Ltd. (山東魯信恒生物業管理有限公司), a limited liability company incorporated in the PRC, which is a non-wholly owned subsidiary of Lucion Group and hence our connected person;
- Shandong Taishan Culture Art Exchange Co., Ltd. (山東泰山文化藝術品交易所股份有限公司), a joint stock limited company incorporated in the PRC, which is a 30%-controlled company held by Lucion Group and hence our connected person;
- Luxin Science and Technology Co., Ltd. (魯信科技股份有限公司), a company limited by shares and incorporated in the PRC, which is a non-wholly owned subsidiary of Lucion Group and hence our connected person; and
- **CNPC Assets Management and its associates:**
 - CNPC Assets Management, a substantial Shareholder and hence our connected person.
 - Kunlun Trust Co., Ltd. (昆侖信託有限責任公司), a limited liability company incorporated in the PRC, which is a non-wholly owned subsidiary of CNPC Assets Management and hence our connected person.

Accordingly, the following transactions, which will continue after the Listing, will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are made on normal commercial terms where, as the Directors currently expect (i) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be less than 0.1% or (ii) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be less than 5% and the total consideration is less than HK\$3,000,000, each on an annual basis. By virtue of Rule 14A.76(1) of the Listing Rules, the transactions are exempt from the annual reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

1. Trademark Licencing Agreements with Lucion Group

Parties: Lucion Group (as the licensor); and
our Company (as the licensee).

Principal terms: In the ordinary course of business, our Company has entered into two trademark licencing agreements with Lucion Group on June 30, 2016 and July 14, 2016, respectively, pursuant to which we were granted licenses to use certain registered trademarks and trademarks in application of Lucion Group for nil consideration. For details of the licensed trademarks, see “B. Further Information about Our Business — 2. Our Intellectual Property Rights — (a) Trademarks” in Appendix VI.

The trademark licencing agreements commenced on June 30, 2016 and July 14, 2016, respectively and each will end on December 31, 2020 subject to automatic renewal unless any termination notice is issued by our Company.

Reasons for the transaction: The trademark licencing agreements were signed as part of the continuing efforts of Lucion Group, a Controlling Shareholder, to support our development.

The Directors are of the view that the transactions under the trademark licencing agreements are conducted on normal commercial terms and that the terms of the trademark licencing agreements are fair, reasonable and in the interests of our Shareholders as a whole.

CONNECTED TRANSACTIONS

2. Individual Connected Persons' Personal Investment in Trusts Managed by our Company

Parties: Certain of our individual connected persons, who are Directors, Supervisors and chief executive and their respective associates (as investors); and

our Company (as the trustee).

Description of the transactions: Our Company offers a wide variety of trust products, some of which are made available to natural persons who are considered as qualified investors under the relevant trust regulations. Our individual connected persons have invested in our trust products and these transactions are expected to continue after the Listing.

Our individual connected persons do not receive any preferential treatment for investment in our trust products. We adopt the same due diligence procedures in confirming and verifying the qualification of our individual connected persons who seek to invest in our trust products as compared to the other potential investors who are independent third parties. The trustee's remuneration to be charged by our Company from the trusts invested by the individual connected persons is calculated based on the terms of the trust contract. The trust contract to be entered into by our individual connected persons is on the terms same as those of investors who are independent third parties investing in the same trust.

Reasons for the transactions: Our Company endeavors to provide quality assets and wealth management services to HNWI through our investment trust. Certain of our individual connected persons, being HNWI, may from time to time choose our trust to satisfy their investment needs. The trust contracts between our individual connected persons and our Company have been and will be entered into on normal commercial terms.

CONNECTED TRANSACTIONS

Our Company will comply with the annual reporting, announcement, circular and/or independent Shareholders' approval requirements in accordance with the Listing Rules if any of the percentage ratios with respect of the amounts of the investment in our trust by our individual connected persons and/or the trustee's remuneration paid to our Company that is attributable to the investment by our individual connected persons exceed the de minimis threshold as stipulated under Rule 14A.76(1).

3. Framework Outdoor Advertising Agreement with Shandong Luxin Advertisement Co., Ltd.

Parties: Our Company (as the customer); and

Shandong Luxin Advertisement Co., Ltd. (as the service provider).

Principal terms: In the ordinary course of business, our Company has entered into a framework outdoor advertising agreement with Shandong Luxin Advertisement Co., Ltd. on November 16, 2017, whereby our Company engages Shandong Luxin Advertisement Co., Ltd. to design, produce and maintain various outdoor advertisement boards for our Company.

The framework outdoor advertising agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the then current term of the framework outdoor advertising agreement.

The framework outdoor advertising agreement is entered into on normal commercial terms.

CONNECTED TRANSACTIONS

Pricing policy: Under the framework outdoor advertising agreement, the service fee shall be determined on a cost-plus basis, with a mark-up rate of no more than 18%. The service fee shall not be higher than the prices at which we procure similar services from independent third party advertising service providers. Shandong Luxin Advertisement Co., Ltd. shall provide the price lists to our Company on a quarterly basis for our independent non-executive Directors to review and approve. As our independent non-executive Directors will compare the price lists provided by Shandong Luxin Advertisement Co., Ltd. with those provided by our independent third party advertising service providers from whom we procure similar services, our Directors are of the view that the said procedure can ensure that the transactions will be conducted on normal commercial terms and no preferential treatment will be provided to Shandong Luxin Advertisement Co., Ltd.

Reasons for the transaction: Shandong Luxin Advertisement Co., Ltd. has been providing outdoor advertising service to our Company for more than three years and has been delivering services of good quality.

Our Company will comply with the annual reporting, announcement, circular and/or independent Shareholders' approval requirements in accordance with the Listing Rules if any of the percentage ratios and/or total consideration with respect of the amounts of the service fees to be paid by our Company to Shandong Luxin Advertisement Co., Ltd. exceed the de minimis threshold as stipulated under Rule 14A.76(1).

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. Continuing Connected Transactions Subject to the Annual Reporting and Announcement Requirements

Our Company has entered into the following transactions. The transactions are made on normal commercial terms where, as the Directors currently expect, (i) the highest relevant "percentage ratio" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% and (ii) the total consideration will be more than HK\$3,000,000, in each case on an annual basis. The transaction will be exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules but will be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

1. *Property Management Service Agreements with Shandong Luxin Hengsheng Property Management Co., Ltd.*

Parties: Our Company (as the customer); and
Shandong Luxin Hengsheng Property Management Co., Ltd. (as the service provider).

Principal terms: In the ordinary course of business, the Company entered into two property management service agreements dated May 19, 2017 and November 16, 2017, respectively, with, among others, Shandong Luxin Hengsheng Property Management Co., Ltd., whereby Shandong Luxin Hengsheng Property Management Co., Ltd. agreed to provide property management services to the office premises and staff's kitchen of our Company located at No. 166 Jiefang Road, Lixia District Jinan, Shandong Province, PRC.

The property management service agreement in relation to our office premises became effective retrospectively on January 1, 2017 and is valid for a term of three years. The property management service agreement in relation to our staff's kitchen became effective on November 16, 2017 and is valid for a term of three years. The parties may agree to extend the agreements for a further three-year term.

The property management service agreements are entered into on normal commercial terms.

Pricing policy: The service fees under the property management service agreements represent prevailing property management fees of similar office premises or staff's kitchen (as appropriate) in neighbouring areas based on available market comparables and as negotiated and agreed by the parties on an arm's length basis. The annual property management fees payable under the property management service agreement in relation to our office premises were determined with reference to the actual floor area used by our Company, at a rate of not more than RMB1.9 per square meter per day. The property management fees payable under the property management service agreement in relation to our staff's kitchen are RMB17,000 per month, determined on a cost plus basis.

CONNECTED TRANSACTIONS

Reasons for the transaction: Shandong Luxin Hengsheng Property Management Co., Ltd. has been providing property management services to our Company for more than five years and has been delivering services of good quality.

Historical figures: The total amount of property management service fees paid to Shandong Luxin Hengsheng Property Management Co., Ltd. during the Track Record Period are set out below:

Historical Transaction Amount (RMB'000)			
Year ended December 31,			Five months ended May 31,
2014	2015	2016	2017
4,940	4,991	9,485	204 ⁽¹⁾

Note:

(1) The remaining amount of property management service fees payable to Shandong Luxin Hengsheng Property Management Co., Ltd. under the existing property management service agreements in relation to our office premises and staff's kitchen as of May 31, 2017 is RMB3,599,000, among which RMB3,514,000 was paid by us in June 2017 and we shall pay the remaining amount of RMB85,000 within the year ending December 31, 2017 .

The property management fees for the year ended December 31, 2016 was higher than that for the years ended December 31, 2014 and 2015 because (i) the Company has increased its office space while the rate remains the same and (ii) the historical transaction amount for the property management service agreement in relation to our staff's kitchen in 2014 and 2015 was nil.

Annual Caps: The maximum amount of property management service fees payable to Shandong Luxin Hengsheng Property Management Co., Ltd. for each of the three years ending December 31, 2017, 2018 and 2019 shall not, as the Directors currently expect, exceed the caps set out below:

Proposed Annual Cap for the year ending December 31,		
2017	2018	2019
(RMB'000)		
8,704	8,704	8,704

CONNECTED TRANSACTIONS

Basis of Caps: The above caps for the years ending December 31, 2017, 2018 and 2019 are based on (i) the existing office premises of our Company with a gross floor area of approximately 12,195 square meters and the rate provided in the current property management service agreement in relation to our office premises and (ii) the monthly fees of RMB17,000 provided in the current property management service agreement in relation to our staff's kitchen. As compared with the property management fees for the year ended December 31, 2016, the above caps are relatively lower as the Company was able to bargain for a slightly lower rate in the current agreement than that in the previous service agreement entered into between the Company and Shandong Luxin Hengsheng Property Management Co., Ltd. in 2015 in relation to our office premises.

2. *Framework Trust Consulting Agreement with Shandong Taishan Culture Art Exchange Co., Ltd.*

Parties: Our Company (as the trustee); and

Shandong Taishan Culture Art Exchange Co., Ltd. (as the service provider to trusts managed and/or invested by us).

Principal terms: In the ordinary course of business, our Company has entered into a framework trust consulting agreement with Shandong Taishan Culture Art Exchange Co., Ltd. on November 16, 2017, whereby our Company in its capacity as trustee engages Shandong Taishan Culture Art Exchange Co., Ltd. from time to time to provide consulting services in relation to a number of artwork investment collective trusts that are or will be managed by our Company (the "Artwork Investment Collective Trusts").

The framework trust consulting agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the then current term of framework trust consulting agreement.

The framework trust consulting agreement is entered into on normal commercial terms.

CONNECTED TRANSACTIONS

Pricing policy: Under the framework trust consulting agreement, the consulting fee consists of fixed consulting fee and floating consulting fee. The fixed consulting fee is calculated by multiplying the total trust AUM under each of the Artwork Investment Collective Trusts by a consulting fee rate of not more than 2.5% per annum. The floating consulting fee is negotiated and agreed by the parties on an arm's length basis with reference to the total rate of return of the respective Artwork Investment Collective Trusts. The Vice General Manager shall take into account the available rates of consulting fees for similar consulting services charged by independent third parties before he/she approves individual contracts to be entered into under the framework trust consulting agreement.

Reasons for the transaction: Shandong Taishan Culture Art Exchange Co., Ltd. has the relevant expertise and has been providing trust consulting services of good quality to the trusts managed by our Company.

Historical figures: The total amount of consulting fees paid to Shandong Taishan Culture Art Exchange Co., Ltd. during the Track Record Period are set out below:

Historical Transaction Amount (RMB'000)			
Year ended December 31,			Five months ended May 31,
2014	2015	2016	2017
4,618	3,532	2,712	nil ⁽¹⁾

Note:

(1) The amount of consulting fees payable to Shandong Taishan Culture Art Exchange Co., Ltd. under the existing consulting service agreements in relation to the Artwork Investment Collective Trusts as of May 31, 2017 is RMB2,656,000, and we shall pay such amount within the year ending December 31, 2017 in accordance with the payment schedule stipulated in such agreements.

The historical figures presented above were computed on the basis that so long as the consulting charges were paid to Shandong Taishan Culture Art Exchange Co., Ltd. in respect of the Artwork Investment Collective Trusts managed by our Company, such charges would be included irrespective of whether the Company itself has invested in the Artwork Investment Collective Trusts.

CONNECTED TRANSACTIONS

Annual Caps: The maximum amount of consulting fees to be paid to Shandong Taishan Culture Art Exchange Co., Ltd. for each of the three years ending December 31, 2017, 2018 and 2019 shall not, as the Directors currently expect, exceed the caps set out below:

Proposed Annual Cap for the year ending December 31,		
2017	2018	2019
(RMB'000)		
5,600	6,700	8,040

Basis of Caps: In arriving at the above annual caps, our Directors have considered (i) the historical figures; (ii) the potential increase in the number of Artwork Investment Collective Trusts to be managed by our Company given our Company's strategy in developing the alternative investment trust business notwithstanding the temporary reduction in the transaction amounts in 2015 and 2016; and (iii) the potential increase in the consulting fee rate charged by Shandong Taishan Culture Art Exchange Co., Ltd. The Company considers that the growth in its business involving Artwork Investment Collective Trusts would be moderate, thus the year-on-year increase in the amount of the consulting fees to be paid to Shandong Taishan Culture Art Exchange Co., Ltd. in the next three years is estimated to be approximately 20%.

3. Framework Information Technology Service Agreement with Luxin Science and Technology Co., Ltd.

Parties: Our Company (as the customer); and

Luxin Science and Technology Co., Ltd. (as the service provider).

Principal terms: In the ordinary course of business, our Company has entered into a framework information technology service agreement with Luxin Science and Technology Co., Ltd. on November 16, 2017, whereby our Company engages Luxin Science and Technology Co., Ltd. to provide information technology services to our Company, including system maintenance, research and development and consulting services in relation to information technology systems and administrative services involving information technology work, and Luxin Science and Technology Co., Ltd. shall also assist our Company in the procurement of software and hardware equipment.

CONNECTED TRANSACTIONS

The term of the framework information technology service agreement shall commence on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the then current term of the framework information technology service agreement.

The framework information technology service agreement is entered into on normal commercial terms.

Pricing policy:

Under the framework information technology service agreement, the service fee for technology maintenance shall be determined with reference to the market price for system maintenance for companies in the same industry and shall not exceed RMB400,000 per system per year, and the service fee for the research and development and consulting services, the administrative services, and the procurement of software and hardware equipment shall be determined on a cost-plus basis, with a mark-up rate of no more than 10%.

Also, our Company will continue to implement its bidding procedure pursuant to which any product or service procurement projects with value exceeding RMB200,000 shall be subject to such procedure, including projects involving Luxin Science and Technology Co., Ltd. to be carried out under the framework information technology service agreement.

Reasons for the transaction:

The Directors consider it would be more cost-efficient to engage Luxin Science and Technology Co., Ltd. to provide information technology services to our Company. In addition, Luxin Science and Technology Co., Ltd. has employed certain of our previous employees whom would be more familiar with our information technology systems.

Historical figures:

The total amount of service fees paid to Luxin Science and Technology Co., Ltd. during the Track Record Period are set out below:

	Historical Transaction Amount (RMB'000)			
	Year ended December 31,			Five months ended May 31, 2017
	2014	2015	2016	
Total amount	–	–	326	1,413

CONNECTED TRANSACTIONS

Annual Caps: The maximum amount of service fees payable to Luxin Science and Technology Co., Ltd. for each of the three years ending December 31, 2017, 2018 and 2019 shall not, as the Directors currently expect, exceed the caps set out below:

	Proposed Annual Cap for the year ending December 31,		
	2017	2018	2019
	(RMB'000)		
Total amount	12,000	16,000	20,000

Basis of Caps: In arriving at the above annual caps, our Directors have considered (i) the scope of services to be rendered by Luxin Science and Technology Co., Ltd.; (ii) the prevailing market rates for the technology maintenance and relevant training and consulting services; (iii) the cost for development of software and procurement of key hardware equipment and the relevant mark-up rate; (iv) the historical costs incurred by our Company on information technology systems in the past including human resources costs, system maintenance costs and product procurement costs; (v) our Company plans to implement a few new information technology systems including family trust business system, electronic file storage system and video conference contract signing system; (vi) the system update and maintenance projects scheduled to be undertaken within the next two years; and (vii) the growth of our needs for information technology services in view of the increasing use of information technology systems by financial institutions as required by their customers.

4. Framework Placement Agency Agreement with Kunlun Trust Co., Ltd.

Parties: Our Company (as the trustee); and
Kunlun Trust Co., Ltd. (as placement agent).

Principal terms: In the ordinary course of business, our Company has entered into a framework placement agency agreement with Kunlun Trust Co., Ltd. on November 16, 2017, whereby our Company in its capacity as trustee engages Kunlun Trust Co., Ltd. from time to time to act as our agent to place trust units of our collective trusts through its distribution channel to qualified investors.

CONNECTED TRANSACTIONS

The framework placement agency agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the then current term of framework placement agency agreement.

The framework placement agency agreement is entered into on normal commercial terms.

Pricing policy: Kunlun Trust Co., Ltd. will charge a commission for its placement services, which will be calculated by multiplying the actual value of trust units to be placed and a commission rate. The commission rate is negotiated and agreed by the parties on an arm's length basis with reference to the prevailing market rates. Before the engagement, the Vice General Manager shall solicit fee quotes from at least two commercial banks for similar placement services and the final commission rate as agreed shall not be higher than those offered by unrelated commercial banks.

Reasons for the transaction: For our collective fund trusts, as the trust units in these trusts are standard products placed to a large number of trustor clients, we have traditionally relied on the distribution channel and established customer base of large commercial banks in China to place such products. We expect to expand our distribution network by engaging different kinds of financial institutions which possess the necessary qualification for placement of our trust units. Kunlun Trust Co., Ltd. has the necessary qualification to engage in placement services of trust units.

Historical figures: During the Track Record Period, there have not been any agency transactions entered into between our Company and Kunlun Trust Co., Ltd. since we typically engage large commercial banks for placement of our trust units. Our Company is in the process of discussion and negotiation of detailed terms of the specific placement agreements to be entered into under the framework agreement, therefore, as of the Latest Practicable Date, there has not been any placement agency transactions between our Company and Kunlun Trust Co., Ltd..

CONNECTED TRANSACTIONS

Annual Caps: The maximum amount of placement commission to be paid to Kunlun Trust Co., Ltd. for each of the three years ending December 31, 2017, 2018 and 2019 shall not, as the Directors currently expect, exceed the caps set out below:

Proposed Annual Cap for the year ending December 31,		
2017	2018	2019
(RMB'000)		
30,000	45,000	54,000

Basis of Caps: In arriving at the above annual caps, our Directors have considered (i) the historical commission amounts charged by financial institutions for similar placement agency services during the Track Record Period, which are summarized below:

	Year ended December 31,			Five months ended May 31,
	2014	2015	2016	2017
	(RMB millions)			
Aggregate AUM of collective fund trusts placed through financial institutions with a separate commission	9,164	9,041	34,424	27,243
Commission paid ⁽¹⁾	172	151	562	334
Average fee rate ⁽²⁾	1.88%	1.67%	1.63%	1.23%

Notes:

- (1) On an annualized basis for calculation purpose.
- (2) Weighted based on placed AUM.

(ii) the potential aggregate trust AUM of not more than RMB3,600 million per annum that our Company may engage Kunlun Trust Co., Ltd. for the placement agency services in the next few years given such kind of engagement is a rather new initiative of our Company in terms of sales channel; and (iii) the possible number of collective trusts which may be established by our Company in the next three years.

CONNECTED TRANSACTIONS

Since the engagement of financial institutions other than commercial banks as placement agents is a relatively new initiative for the Company to expand its sales channels, the Company expects that the transaction volume in 2017 would be less substantial. Once the relationship with these financial institutions including Kunlun Trust Co., Ltd. becomes more stable, the Company plans to utilize this sales channel more extensively considering that the number of collective trusts to be established by the Company is expected to grow rather rapidly, therefore the volume of transactions with Kunlun Trust Co., Ltd. is estimated to increase more significantly from 2017 to 2018. Commencing from 2019, relatively it is anticipated that the transaction volume will increase at a rather steady pace.

II. Continuing Connected Transactions subject to the Annual Reporting, Announcement, Circular and Independent Shareholders' Approval Requirements

Our Company has entered into the following transactions. Since at least one of the relevant "percentage ratios" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, be, on an annual basis, more than 5%, the transactions will be subject to the annual reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Management of Assets Entrusted by CNPC Assets Management and/or its associates

Parties:	Our Company (as the trustee); and CNPC Assets Management and/or its associates (as the trustor client(s)).
Description of the transactions:	In the ordinary course of business, our Company accepts entrustment of funds and assets from its trustor clients. Through establishment of different trusts, our Company manages the entrusted funds and property for its trustor clients during the terms of the trusts. In return, our Company receives trustee's remuneration from various trusts that we established for the trustor clients. Trust contracts are entered into between our Company on one hand and the trustor clients on the other hand. We expect that we may provide the above trust services to CNPC Assets Management and its associates following the Listing.

CONNECTED TRANSACTIONS

Principal terms of the framework agreement: To regulate the on-going transactions contemplated under the trust contracts entered into from time to time between our Company as trustee and CNPC Assets Management and its associates as trustor clients (the “CNPC Trust Transactions”), our Company has entered into a framework trust agreement with CNPC Assets Management on November 16, 2017, pursuant to which our Company and CNPC Assets Management (for itself and on behalf of its associates) agree to conduct the CNPC Trust Transactions on normal commercial terms and in accordance with the pricing policy set out therein.

The framework trust agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the then current term of the framework trust agreement.

Pricing policy:

- The trustee’s remuneration shall be determined with reference to the trust AUM and investment return on the trust assets;
- The level of the trustee’s remuneration may be varied depending on the actual scope of services our Company will provide under the relevant trust as well as the expected return to beneficiaries of the trusts, but in any event shall be in line with market price for similar products;
- In respect of the individual trusts which are based on one-on-one engagement and involve only CNPC Assets Management or any of its associates as the sole trustor, the Vice General Manager shall take into consideration the terms of at least two other individual trusts of similar purpose with similar kind of entrusted assets involving independent third parties as trustor clients before he/she approves the establishment of the trust for CNPC Assets Management or any of its associates. The terms of any trusts established for CNPC Assets Management or any its associates, in particular the trustee’s remuneration rate, shall be comparable to those trusts of which independent third parties are trustors; and

CONNECTED TRANSACTIONS

- In respect of the collective trusts which our Company manages and disposes of the assets entrusted by all trustors as a whole irrespective of the identities of the trustors, the Company shall ensure that no preferential treatment will be provided to CNPC Assets Management and its associates in terms of the verification and selection process of the potential trustors for the investment in the collective trusts. The trust contract to be entered into by CNPC Assets Management and its associates shall be on the terms same as that of trustors who are independent third parties investing in the same collective trust.

Reasons for the transactions: Our Company endeavours to provide quality assets and wealth management services to institutional investors through the establishment of various trusts. We will generate revenue from the trustee's remuneration charged on the trusts managed for CNPC Assets Management and its associates.

Historical figures: During the Track Record Period, there have not been any entrustment of assets or funds to the Company by CNPC Assets Management or its associates. Our Company is in the process of discussion and negotiation of detailed terms of the specific trust contracts to be entered into under the framework trust agreement, therefore, as of the Latest Practicable Date, there has not been any CNPC Trust Transactions.

Annual Caps: The maximum aggregate amount of the trustee's remuneration payable by CNPC Assets Management and its associates to our Company and the maximum aggregate outstanding balances of the assets and funds to be entrusted by CNPC Assets Management and its associates to our Company for each of the three years ending December 31, 2017, 2018 and 2019, shall not, as the Directors currently expect, exceed the caps as set out below:

	Proposed Annual Cap for the year ending/as of December 31,		
	2017	2018	2019
	(RMB'000)		
Trustee's remuneration to be received from the trusts of which CNPC Assets Management and its associates are trustors . . .	54,000	90,000	90,000
Maximum outstanding balance of the assets and funds to be entrusted by CNPC Assets Management and its associates	6,000,000	10,000,000	10,000,000

CONNECTED TRANSACTIONS

Basis of Caps: In arriving at the above caps, our Directors have taken into account:

- (i) the recent discussions and negotiations with CNPC Assets Management regarding the potential collaboration in terms of assets entrustment and the possible amounts involved in such collaboration. In October 2013, the Company proposed to increase its registered capital and organized a central bid through Shandong Property Rights Exchange Centre to invite new investors to subscribe for such additional registered capital. One of the bidding terms was that the successful bidder shall commit to bring in not less than RMB10,000 million worth trust business to the Company annually within at least the three years after its subscription of the additional registered capital of the Company. CNPC Assets Management successfully won the bid and became one of the shareholders of the Company in 2014. Since then, the Company and CNPC Assets Management has been discussing and negotiating the form and the terms of the new business that could be introduced to the Company pursuant to the bidding terms and until 2016, the parties preliminarily agreed that CNPC Assets Management and/or its associates shall entrust funds and assets with the Company directly as trustor clients and the parties would continue to discuss the detailed terms of such collaboration. During the recent discussions, CNPC Assets Management has indicated (but with no commitment) that at least RMB10,000 million will be entrusted to our Company in the next few years;

CONNECTED TRANSACTIONS

- (ii) the average rate of trustee's remuneration that we charged independent third parties for management of actively managed trust during the year ended December 31, 2016 as we expect the CNPC Trust Transactions will mostly involve actively managed trust;
- (iii) the possible growth of the transactions between the parties given the synergies of their respective business operations. CNPC Assets Management provides asset management and advisory services. It offers asset management, asset reconstruction, acquisition and merger services, distressed asset disposal and distressed asset liquidation for its affiliated companies in China. Through our customised trust products, CNPC Assets Management is offered with more options, efficiency and flexibility in conducting its operations, in particular in asset reconstruction. Therefore, the potential collaboration is mutually beneficial and once the relationship is strengthened, the volume of transactions between the parties is expected to grow quickly and significantly; and
- (iv) the scale of assets as indirectly managed by CNPC Assets Management through its affiliates and the investment needs of the group members of CNPC Assets Management. As of December 31, 2016, the assets as indirectly managed by CNPC Assets Management through its affiliates reached approximately RMB144,675 million. The parent company of CNPC Assets Management, China National Petroleum Corporation, is China's largest oil and gas producer and supplier, as well as one of the world's major oilfield service providers and a globally reputed contractor in engineering construction, with businesses covering petroleum exploration and production, natural gas and pipelines, refining and marketing, oilfield services, engineering construction, petroleum equipment manufacturing and new energy development. As of December 31, 2016, total assets of China National Petroleum Corporation exceeded RMB4,069 billion. Energy industry is generally capital intensive and CNPC Assets Management is one of the two subsidiaries of China National Petroleum Corporation which carries out financial business and provides financial services for the group companies. The Company expects that the indicated amount of funds and assets to be entrusted by CNPC Assets Management with the Company would be largely, if not extensively, realized in the next few years.

CONNECTED TRANSACTIONS

Notwithstanding there has not been any transactions between our Company and CNPC Assets Management during the Track Record Period, our Company estimates that the outstanding balance of the funds and assets to be entrusted by CNPC Assets Management and/or its associates would reach as much as RMB6,000 million in 2017, RMB10,000 million in 2018 and RMB10,000 million in 2019 largely based on the intended minimum entrustment amount as indicated by CNPC Assets Management. Given our Company's understanding of the operations of CNPC Assets Management as well as the mutual benefits that can be generated from the collaboration, our Company expects that the growth can be very fast once the initial projects start to run smoothly and are proved to be successful. The Company believes that it is of paramount importance to build and secure business relationship with CNPC Assets Management given the strong reputation and the enormous asset scale of its parent company and more buffer in the proposed annual caps would allow the relationship to be less strenuously developed and maintained in the beginning years.

2. *Management of Assets Entrusted by Lucion Group and/or its associates*

Parties:	Our Company (as the trustee); and Lucion Group and/or its associates (as the trustor client(s)).
Description of the transactions:	In the ordinary course of business, our Company accepts entrustment of funds and property from Lucion Group and its associates. Through establishment of different trusts, our Company manages the entrusted funds and assets for Lucion Group and its associates during the terms of the trusts. In return, our Company receives trustee's remuneration from various trusts that we established for Lucion Group and its associates. Trust contracts are entered into between our Company on one hand and Lucion Group and/or its associates on the other hand. We expect that we will continue to provide the above trust services to Lucion Group and its associates following the Listing.

CONNECTED TRANSACTIONS

Principal terms of the framework agreement: To regulate the on-going transactions contemplated under the trust contracts entered into from time to time between our Company as trustee and Lucion Group and its associates as trustor clients (the “Lucion Trust Transactions”), our Company has entered into a framework trust contract with Lucion Group on November 16, 2017, pursuant to which our Company and Lucion Group (for itself and on behalf of its associates) agree to conduct the Lucion Trust Transactions on normal commercial terms and in accordance with the pricing policy set out therein.

The framework trust agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the term of the framework trust agreement.

Pricing policy:

- The trustee’s remuneration shall be determined with reference to the trust AUM and investment return on the trust assets;
- The level of the trustee’s remuneration may be varied depending on the actual scope of services our Company will provide under the relevant trust as well as the expected return to beneficiaries of the trusts, but in any event shall be in line with market price for similar products;
- In respect of the individual trusts which are based on one-on-one engagement and involve only Lucion Group or any of its associates as the only trustor, the Vice General Manager shall take into consideration the terms of at least two other individual trusts of similar purpose with similar kind of entrusted assets involving independent third parties as trustor clients before he/she approves the establishment of the trust for Lucion Group or any of its associates. The terms of any trusts established for Lucion Group or any its associates, in particular the trustee’s remuneration rate, shall be comparable to those trusts of which independent third parties are trustors; and

CONNECTED TRANSACTIONS

- In respect of the collective trusts which our Company manages and disposes of the assets entrusted by all trustors as a whole irrespective of the identities of the trustors, the Company shall ensure that no preferential treatment will be provided to Lucion Group and its associates in terms of the verification and selection process of the potential trustors for the investment in the collective trusts. The trust contract to be entered into by Lucion Group and its associates shall be on the terms same as that of trustors who are independent third parties investing in the same collective trust.

Reasons for the transaction: Our Company endeavours to provide quality assets and wealth management services to institutional investors through the establishment of various trusts. We generate revenue from the trustee's remuneration charged on the trusts managed for Lucion Group and its associates.

Historical figures: The aggregate amount of the trustee's remuneration paid by Lucion Group and its associates to our Company during the Track Record Period and the aggregate outstanding balances of the assets and funds entrusted by Lucion Group and its associates to our Company as of December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 are set out below:

	Historical Transaction Amount (RMB'000)			
	Year ended December 31,			Five months ended May 31,
	2014	2015	2016	2017
Trustee's remuneration received from the trusts of which Lucion Group and its associates are trustors	59,119	68,116	92,067	51,247
Outstanding balance of the assets and funds entrusted by Lucion Group and its associates	2,427,663	3,835,077	8,399,947	6,274,238

CONNECTED TRANSACTIONS

Annual Caps: The maximum aggregate amount of the trustee's remuneration payable by Lucion Group and its associates to our Company and the maximum aggregate outstanding balances of the assets and funds to be entrusted by Lucion Group and its associates to our Company for each of the three years ending December 31, 2017, 2018 and 2019, shall not, as the Directors currently expect, exceed the caps as set out below:

	Proposed Annual Cap for the year ending December 31,		
	2017	2018	2019
	(RMB '000)		
Trustee's remuneration to be received from the trusts of which Lucion Group and its associates are trustors	123,000	184,500	221,400
Maximum outstanding balance of the assets and funds to be entrusted by Lucion Group and its associates	10,000,000	15,000,000	18,000,000

Basis of Caps: In arriving at the above caps, our Directors have considered:

- (i) the historical transaction amounts and transaction volumes and the average actual trustee's remuneration rate for actively managed trusts over the Track Record Period;
- (ii) that historically the trusts of which Lucion Group and its associates were trustors and for which we acted as trustee were mostly actively managed trusts;
- (iii) the favorable development of the trust industry over the last few years. In particular, the total trust assets of trust sector has experienced rapid growth with total trust assets of the sector increasing from RMB7.47 trillion in 2012 to RMB20.22 trillion in 2016. The CAGR of the total trust assets from 2012 to 2016 is 28.3%. Our Company expects to continue to grow its business given this positive momentum and the volume of transactions with Lucion Group and its associates will naturally increase as well;

CONNECTED TRANSACTIONS

- (iv) the anticipated business growth of Lucion Group and its associates, thereby accumulating more assets and funds and increasing their investment needs. The Shandong provincial government has designated Lucion Group as one of the first batch of state-owned enterprises to participate in a pilot program that will transform them into state-owned capital investment and operation companies and Lucion Group is expected to promote Shandong's economic transformation and development. Lucion Group is one of the most important investment and financing platforms of the Shandong provincial government and holds investments in a wide variety of industries. Therefore, Lucion Group and its associates would continue to require our Company's products and services to satisfy its business needs; and
- (v) that one of the subsidiaries of Lucion Group has recently obtained the approval to undertake RMB10,000 million worth PPP (private public partnership) projects and such subsidiary would require our trust structure to utilize its funds given its more restricted business scope.

As of May 31, 2017, the outstanding balance of the assets and funds entrusted by Lucion Group and its associates has already reached RMB6,274 million. Our Company considers that the RMB10,000 million worth PPP projects to be undertaken by Lucion Group's subsidiary will lead to exponential growth in our transactions with Lucion Group in 2017 and 2018. Historically, our Company has participated in a large number of key infrastructure projects in Shandong such as thermal and nuclear power plants, airport and railways. Given our abundant experience, successful track record as well as long standing relationships with Lucion Group and government agencies in Shandong, Lucion Group's subsidiary is expected to channel most of its funds through our trusts so as to carry out the PPP projects. Commencing from 2019, our Company estimates that the volume of transactions with Lucion Group and its associates will increase at a rate comparable to the industry growth.

CONNECTED TRANSACTIONS

3. *Provision of Loans or Financing to Lucion Group and/or its associates by Trusts Managed by our Company*

Parties: Our Company (as the trustee); and Lucion Group and/or its associates (as the financing client(s)).

Description of the transactions: Lucion Group and/or its associates may from time to time seek funding from the trusts administered or managed by our Company and in the ordinary course of business, our Company in its capacity as trustee will enter into loan or financing agreements with Lucion Group and/or its associates. We expect that our trusts will continue to provide loans and financing to Lucion Group and its associates following the Listing. Interest payment and financing fees to be paid by Lucion Group and its associates in respect of the above loan and financing transactions will be received by the trusts and will form part of the trust assets. These loan and financing transactions do not generate any income for our Company as trustee directly. Instead, our Company will receive trustee's remuneration out of the trust assets which grow as a result of the above loan and financing transactions.

Principal terms of the framework agreement: To regulate the loan and financing transactions entered into from time to time between our Company as trustee and Lucion Group and its associates as financing clients (the "Loan and Financing Transactions"), our Company has entered into a framework trust financing agreement with Lucion Group on November 16, 2017, pursuant to which our Company and Lucion Group (for itself and on behalf of its associates) agree to conduct the Loan and Financing Transactions on normal commercial terms and in accordance with the pricing policy set out therein. The framework trust financing agreement will become effective on the Listing Date and is valid for a term of three years. The parties may agree to extend the agreement for further three-year terms if agreement is reached within two months before the expiry of the term of the framework trust financing agreement.

CONNECTED TRANSACTIONS

Pursuant to the framework trust financing agreement and in compliance with the applicable PRC laws and regulations, the Company shall not be the trustor client of any of the trusts providing financing to Lucion Group and/or its associates. The framework trust financing agreement shall be applicable to any trusts, of which our Company, in its capacity as trustee, enters into the Loan and Financing Transactions, and will therefore include both actively managed trusts and administrative management trusts.

The type of trusts to be involved will depend on whether Lucion Group and/or its associates themselves would have to identify and manage to secure the source of funding for the potential Loan and Financial Transactions when Lucion Group and/or its associates first approach our Company to structure a trust in order to satisfy their financing needs. The Company does not have the authority to dictate how the trust is to be structured and it is up to the parties to discuss and negotiate which type of the trusts would better suit the intentions of the parties and the market conditions by then. In the cases where the source of funding is to be or has been identified by Lucion Group and/or its associates, the parties introduced by Lucion Group and/or its associates to provide the funding will act as the trustor clients and invest in the trusts to be established and then the trusts of which our Company acts as trustee will then enter into the Loan and Financing Transactions. Given our Company's involvement in these cases will be limited thus the trusts to be established will be administrative management trusts. Alternatively, if the source of funding has not been identified, the Company may have to line up trustor clients to establish the relevant trusts for extending the loans and financing to Lucion Group and/or its associates or determine whether any existing trusts that are managed by our Company may provide loans and financing to Lucion Group and/or its associates. In these cases, the trusts involved are actively managed trusts. For further details of our Company's involvement as mentioned above, please see "Business – Our Trust Business – Different Forms of our Trusts – Administrative Management Trusts v. Actively Managed Trusts" and "Business – Our Trust Business – Our Trust Product Lines – Financing Trusts".

CONNECTED TRANSACTIONS

- Pricing policy:**
- The pricing policy is subject to guidelines set by the PBOC, if applicable;
 - The interest rates charged on the loans to be extended to Lucion Group and its associates shall be comparable and shall be (i) not lower than the loan interest rates prescribed by the PBOC for loans with the same term and of the same time, subject to the relevant regulatory requirements; (ii) not lower than the interest rates offered to Lucion Group and its associates by the major commercial banks in the PRC for loans with the same term and of the same type; and (iii) not lower than the interest rates offered to the other financing clients of our Company whom are independent third parties in respect of loans with the same term extended from our trusts within the preceding three calendar months; and
 - The trustee's remuneration to be received from the trusts providing financing or loans to Lucion Group and its associates shall be negotiated and agreed separately and independently between our Company and the relevant trustors.
- Reasons for the transactions:**
- Our Company undertakes the loan and financing transaction in its performance of trustee's duties to operate and manage the trust assets. Counterparties for our trusts are also considered as our clients and our Company endeavours to serve their financing needs.

CONNECTED TRANSACTIONS

Historical figures: The aggregate amount of the trustee's remuneration received from the trusts providing financing to Lucion Group and its associates during the Track Record Period and the aggregate outstanding balance (including interests accrued thereon) of the loans or financing extended to Lucion Group and its associates by the trusts of which our Company is trustee as of December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 are set out below:

	Historical Transaction Amount (RMB'000)			
	Year ended December 31,			Five months
	2014	2015	2016	ended May 31, 2017
Trustee's remuneration received from the trusts providing financing to Lucion Group and its associates	5,746	6,349	28,045	24,862
Outstanding balance (including interests accrued thereon) of the loans or financing extended to Lucion Group and its associates	1,354,769	9,225,189	10,327,524	13,840,127

Since Lucion Group and its associates engaged in a wide variety of businesses across different industries, thus their financing needs may vary from time to time, resulting in fluctuations in historical transaction amounts.

The transaction amount increased significantly from 2014 to 2015 because one of the associates of Lucion Group, namely Shandong Financial Assets Management Co., Ltd., was established and commenced to procure loans from our trusts. Shandong Financial Assets Management Co., Ltd. is principally engaged in distressed asset management and has significant funding needs for its operations. Trustee's remuneration did not increase correspondingly in 2015 as most part of the remuneration was received in 2016.

Most part of the trustee's remuneration will be received quarterly and by the end of the year.

CONNECTED TRANSACTIONS

Annual Caps: The maximum aggregate amount of the trustee's remuneration to be received by our Company from the trusts providing financing to Lucion Group and its associates and the maximum aggregate outstanding balance (including interests accrued thereon) of the loans or financing to be extended to Lucion Group and its associates by the trusts of which our Company is a trustee for each of the three years ending December 31, 2017, 2018 and 2019, shall not, as the Directors currently expect, exceed the caps as set out below:

	Proposed Annual Cap for the year ending/as of December 31,		
	2017	2018	2019
	(RMB'000)		
Trustee's remuneration to be received from the trusts providing financing to Lucion Group and its associates	60,000	80,000	96,000
Maximum outstanding balance (including interests accrued thereon) of the loans or financing to be extended to Lucion Group and its associates	15,000,000	20,000,000	24,000,000

Basis of Caps: In arriving at the above caps, our Directors have considered:

- (i) the historical transaction amounts and the actual trustee's remuneration rate for those administrative management trusts providing financing to Lucion Group and its associates taking into account the fact that such rate would be varied among different trusts and the actual remuneration rate for some of those trusts were higher than the average actual trustee's remuneration rate for our other administrative management trusts over the Track Record Period;

CONNECTED TRANSACTIONS

- (ii) the average actual trustee's remuneration rate for all our administrative management trusts over the Track Record Period;
- (iii) that historically trusts which provided financing to Lucion Group and its associates were mostly administrative management trusts. Nevertheless, our Company in fact anticipates that comparing to the past slightly more actively managed trusts (which had higher trustee's remuneration rate over the Track Record Period) will be involved in providing financing to Lucion Group and its associates in the next few years considering (a) the overall proportion of the actively managed trusts to the administrative management trusts of our Company in terms of the number, AUM and income has been increasing year over year during the Track Record Period; and (b) as we continuously grow our active management capabilities, it is our Company's strategy to take a more proactive approach to help satisfying the financing needs of our counterparty clients with good credit records and low risk profile (including Lucion Group and its associates). Once our Company is made aware of the financing needs of these quality counterparty clients, our Company will actively look for trustor clients who could invest in the trusts providing the loans and financing to these clients instead of having these clients to identify and introduce trustor clients to our Company;
- (iv) the potential growth of our trust AUM, thereby increasing the size of the funds that can be made available to Lucion Group and its associates. As of May 31, 2017, our total trust AUM reached approximately RMB254,499 million;
- (v) the future financing plan and preference of Lucion Group as communicated with our Company. Lucion Group is tasked by the provincial government to promote Shandong's economic transformation and development and its businesses span across different industries such as culture and media, tourism, infrastructure, real estate, energy and technologies. Therefore it will continue to procure loans or financing from our trusts in support of the growth and development its various businesses;

CONNECTED TRANSACTIONS

- (vi) that more financing is expected to provide to real estate developers which typically results in a higher rate of return; and
- (vii) that Shandong Financial Assets Management Co., Ltd. will increase its registered capital from RMB2,030 million to no less than RMB10,100 million, thus allowing it to undertake more financing transactions. Since Shandong Financial Assets Management Co., Ltd. was established in 2014, it commenced to procure loans and financing from our trusts. The outstanding balance of loans or financing extended to Lucion Group and its associates by our trusts then grew significantly from approximately RMB1,355 million in 2014 to approximately RMB10,327 million in 2016. Our Company expects to benefit from its increased funding capability given the current stable relationship.

Given the fluctuations in historical transaction amounts, our Company considers it more important to estimate the proposed annual caps based on the financing plans of the relevant connected persons as communicated to our Company. Our Company will also consider the financial background and repayment record of the relevant connected persons in order to assess whether the proposed annual caps shall include any amount of loans or financing to be extended to such relevant connected persons. The significant growth in the proposed annual caps for the years ending December 31, 2017, 2018 and 2019 is primarily due to our Company's expectation in providing more loans and financing to Shandong Financial Assets Management Co., Ltd.

APPLICATION FOR WAIVERS

In respect of the transactions described in “— Non-exempt Continuing Connected Transactions — I. Continuing Connected Transactions Subject to the Annual Reporting and Announcement Requirements”, as (i) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1% but less than 5% and (ii) the total consideration on an annual basis is expected to be more than HK\$3,000,000, in each case on an annual basis, such transactions are exempt from the circular and independent Shareholders' approval requirements but subject to the annual reporting and announcement requirements as set out in Rules 14A.49 and 14A.35 of the Listing Rules and the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Listing Rules.

CONNECTED TRANSACTIONS

In respect of the transactions described in “— Non-exempt Continuing Connected Transactions — II. Continuing Connected Transactions Subject to the Annual Reporting, Announcement, Circular and Independent Shareholders’ Approval Requirements” above, as at least one of the relevant “percentage ratios” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is, on an annual basis, expected to be more than 5%, the transactions are subject to the annual reporting and announcement requirements as set out in Rules 14A.49 and 14A.35 of the Listing Rules, the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Listing Rules and the circular and independent Shareholders’ approval and related requirements as set out in Rules 14A.36, 14A.46 and 14A.53(3) of the Listing Rules.

As described above, we expect these non-exempt continuing connected transactions to be carried out on a continuing basis and to extend over a period of time. Our Directors therefore consider that strict compliance with the announcement, circular and independent Shareholders’ approval requirements (where applicable) under the Listing Rules would be impractical and unduly burdensome and would impose unnecessary administrative costs upon us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement relating to continuing connected transaction under Rule 14A.35 of the Listing Rules in respect of the transactions described in “— Non-exempt Continuing Connected Transactions — I. Continuing Connected Transactions Subject to the Annual Reporting and Announcement Requirements”, and a waiver from strict compliance with the announcement, circular and independent Shareholders’ approval requirements relating to the continuing connected transactions under Rules 14A.35, 14A.36, 14A.46 and 14A.53(3) of the Listing Rules in respect of the transactions described in “— Non-exempt Continuing Connected Transactions — II. Continuing Connected Transactions Subject to the Annual Reporting, Announcement, Circular and Independent Shareholders’ Approval Requirements”.

We will, however, comply at all times with the applicable provisions under Rules 14A.34, 14A.49, 14A.51 to 14A.59 and 14A.71 of the Listing Rules in respect of the non-exempt continuing connected transactions (the “Non-exempt Continuing Connected Transactions”). If any terms of the Non-exempt Continuing Connected Transactions are altered, or if we enter into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, we will fully comply with Chapter 14 of the Listing Rules, unless a separate waiver is applied and obtained from the Stock Exchange.

THE DIRECTORS’ VIEW

The Directors (including the independent non-executive Directors) are of the opinion that the above continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Company on normal commercial terms, and that the terms of these continuing connected transactions are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) are also of the opinion that the proposed annual caps set out above for the continuing connected transactions are fair and reasonable and in the interest of the Shareholders as a whole.

THE JOINT SPONSORS' VIEW

The Joint Sponsors are of the view that:

- (i) the Non-exempt Continuing Connected Transactions have been and will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms and are fair and reasonable and in the interest of the Shareholders as a whole; and
- (ii) the proposed annual caps for such Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Shareholders as a whole.

SHARE CAPITAL

As of the date of this prospectus, the registered share capital of our Company is RMB2,000,000,000 divided into 2,000,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of the Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage to total share capital</u>
1,941,175,000	Domestic Shares in issue	75%
58,825,000	H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering	2.27%
<u>588,250,000</u>	H Shares to be issued under the Global Offering	<u>22.73%</u>
<u>2,588,250,000</u>	Total	<u>100%</u>

Assuming the Over-allotment Option is exercised in full, the share capital of the Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage to total share capital</u>
1,932,353,000	Domestic Shares in issue	72.20%
67,647,000	H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering	2.53%
<u>676,470,000</u>	H Shares to be issued under the Global Offering	<u>25.27%</u>
<u>2,676,470,000</u>	Total	<u>100%</u>

OUR SHARES

Domestic Shares and H Shares are all ordinary shares in the share capital of our Company. All dividends in respect of H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and

SHARE CAPITAL

other persons who are entitled to hold H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors or foreign investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect .

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from July 30, 2015, on which we were organized as a joint stock limited company. This lock-up period expired on July 29, 2016. The PRC Company Law further provides that the shares issued prior to any public offering of our Shares should not be transferred within a period of one year from the date on which our shares are publicly offered and listed on the relevant stock exchange. Accordingly, promoter shares may not be sold within a period of one year from the Listing Date. This lock-up period is expected to expire on December 7, 2018.

Upon the approval of the State Council or its authorized regulatory departments and with the consent of the Stock Exchange, the Domestic Shares may be converted into H Shares.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in our Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

According to the stipulations by the State Council's securities regulatory authority and our Articles of Association, our shareholders of Domestic Shares may convert their unlisted shares into overseas-listed shares and have them listed and traded on an overseas stock exchange, upon internal approval and the approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities

SHARE CAPITAL

regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of our Domestic Shares are to be converted into H Shares, such conversion will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share Register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. No class shareholder voting is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed conversion.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share Register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the Domestic Shares held by it into H Shares.

TRANSFER OF STATE-OWNED SHARES

In accordance with relevant PRC rules regarding the transfer of state-owned shares, our Promoters, Lucion Group, CNPC Assets Management, Shandong High-Tech Venture Capital (for which Lucion Group will transfer shares to NSSF on its behalf), Shandong Gold Group, Jinan Energy Investment, and Weifang Investment are required to transfer to NSSF such number of Domestic Shares that are equivalent to 10% of the number of the Offer Shares (58,825,000 H Shares before the exercise of the Over-allotment Option, and 67,647,000 H Shares after the exercise in full of the Over-allotment Option). At the time of

SHARE CAPITAL

the listing of our H Shares on the Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. We will not receive any proceeds from the transfer by our Promoters to NSSF of such Domestic Shares or any subsequent disposal of such H Shares by NSSF.

Relevant matters relating to the transfer of state-owned shares by our Promoters to NSSF were approved by SASAC on September 12, 2016. The conversion of those shares into H Shares was approved by the CSRC on January 24, 2017.

Pursuant to a letter issued by the NSSF (Shebaojijinf [2016] No. 156) on November 24, 2016, the NSSF instructed us (i) to arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be issued by our Company, and (ii) remit the proceeds from the sale of Sale Shares (after deducting the SFC transaction levy and Stock Exchange trading fees to an account designated by the NSSF). We have been advised by Fangda Partners, our PRC legal counsel, that the transfer, conversion and sale described above have been approved by the relevant PRC governmental authorities and are in compliance with PRC laws.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

According to our Articles of Association, general meetings or class meetings are required under the following circumstances: (i) increase or reduction of the share capital, repurchase of the Company's shares and issue of shares of any class, stock warrants or other similar securities; (ii) the division, merger, dissolution, liquidation or change of corporate forms of the Company; (iii) issuance of bonds or other securities; and (iv) amendments to the Articles of Association;

For further information, see "Appendix V — Summary of the Articles of Association — Notice of Shareholders' General Meetings and Matters to be Dealt with at the Meetings" and "Appendix V — Summary of the Articles of Association — Special Resolutions — Majority Required".

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons will have an interest or a short position in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Class	As of the date hereof and immediately prior to the Global Offering			Immediately after the Global Offering (assuming the Over-allotment Option is not exercised) ⁽¹⁾		
			Number of Shares ⁽²⁾	Approximate percentage of interest in our Company	Approximate percentage of the relevant class of Shares of our Company	Number of Shares	Approximate percentage of interest in our Company	Approximate percentage of the relevant class of Shares of our Company
Lucion Group ⁽³⁾	Beneficial Interest; interest of a controlled corporation	Domestic Shares	1,385,416,667	69.27%	69.27%	1,344,668,100	51.95%	69.27%
Shandong High-Tech Venture Capital	Beneficial Interest	Domestic Shares	125,000,000	6.25%	6.25%	125,000,000	4.83%	6.44%
Luxin Venture Capital ⁽⁴⁾	Interest of a controlled corporation	Domestic Shares	125,000,000	6.25%	6.25%	125,000,000	4.83%	6.44%
CNPC Assets Management	Beneficial Interest	Domestic Shares	500,000,000	25.00%	25.00%	485,293,750	18.75%	25.00%
CNPC Capital Company Limited By Shares ⁽⁵⁾	Interest of a controlled corporation	Domestic Shares	500,000,000	25.00%	25.00%	485,293,750	18.75%	25.00%
CNPC Capital Company Limited ⁽⁵⁾	Interest of a controlled corporation	Domestic Shares	500,000,000	25.00%	25.00%	485,293,750	18.75%	25.00%
China National Petroleum Corporation (中國石油天然氣集團公司) ⁽⁵⁾	Interest of a controlled corporation	Domestic Shares	500,000,000	25.00%	25.00%	485,293,750	18.75%	25.00%

Notes:

- (1) The calculation is based on the total number of 2,588,250,000 Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

SUBSTANTIAL SHAREHOLDERS

- (2) All interests stated are long positions.
- (3) Lucion Group is owned as to 70% by Shandong SASAC and as to 30% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會). Shandong High-Tech Venture Capital is an indirect non-wholly owned subsidiary of Lucion Group. Lucion Group is therefore deemed to be interested in 125,000,000 Domestic Shares held by Shandong High-Tech Venture Capital.
- (4) Shandong High-Tech Venture Capital is a direct wholly-owned subsidiary of Luxin Venture Capital. Luxin Venture Capital is therefore deemed to be interested in 125,000,000 Domestic Shares held by Shandong High-Tech Venture Capital.
- (5) CNPC Assets Management is a direct wholly-owned subsidiary of CNPC Capital Company Limited which is wholly-owned by CNPC Capital Company Limited By Shares, which is an A Share listed company. As of the Latest Practicable Date and to the best knowledge of the Directors, CNPC Capital Company Limited By Shares was held as to 77.35% by China National Petroleum Corporation, which is a PRC state-owned company. Each of CNPC Capital Company Limited, CNPC Capital Company Limited By Shares and China National Petroleum Corporation is therefore deemed to be interested in 485,293,750 Domestic Shares held by CNPC Assets Management.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our Directors, Supervisors and senior management as of the date of this prospectus.

Directors

Name	Age	Date of Joining/Rejoining Our Company	Position	Effective Date of Appointment as Director	Roles and Responsibilities
Wang Yingli (王映黎)	56	December 1992	Chairperson of the Board and executive Director	July 24, 2014	Overall management of our Company's business strategies, corporate governance and operations
Xiao Hua (肖華)	52	June 2017	Vice-Chairperson of the Board and non-executive Director	July 31, 2017	Providing strategic advice and making recommendations on the operations and management of our Company
Wan Zhong (萬眾)	44	From July 1996 to June 2012 and rejoined in March 2016	Executive Director	July 5, 2016	Day-to-day management and operations of our Company
Jin Tongshui (金同水)	52	From July 1988 to June 1995, from June 2000 to December 2011 and rejoined in August 2012	Non-executive Director	August 21, 2012	Providing strategic advice and making recommendations on the operations and management of our Company
Yen Huai-chiang (顏懷江)	44	May 2015	Independent non-executive Director	November 24, 2015	Providing independent advice on the operations and management of our Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining/Rejoining Our Company	Position	Effective Date of Appointment as Director	Roles and Responsibilities
Ding Huiping (丁慧平)	61	May 2015	Independent non-executive Director	September 1, 2015	Providing independent advice on the operations and management of our Company
Meng Rujing (孟茹靜)	40	June 2016	Independent non-executive Director	September 6, 2016	Providing independent advice on the operations and management of our Company

Supervisors

Name	Age	Date of Joining/Rejoining Our Company	Position	Date of Appointment as Supervisor	Roles and Responsibilities
Yang Gongmin (楊公民)	59	From January 2001 to March 2004 and rejoined in March 2010	Chairperson of the board of Supervisors	March 25, 2010	Supervising the performance of duties by the Directors and senior management
Wang Yuepu (王曰普)	55	August 2012	Supervisor	July 21, 2016	Supervising the performance of duties by the Directors and senior management
Hou Zhenkai (侯振凱)	35	May 2016	Supervisor	May 4, 2016	Supervising the performance of duties by the Directors and senior management
Chen Yong (陳勇)	44	September 2014	Supervisor	September 26, 2014	Supervising the performance of duties by the Directors and senior management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining/Rejoining Our Company	Position	Date of Appointment as Supervisor	Roles and Responsibilities
Wu Chen (吳晨)	42	May 2015	Supervisor	May 29, 2015	Supervising the performance of duties by the Directors and senior management
Tian Zhiguo (田志國)	45	July 2005	Supervisor	December 30, 2011	Supervising the performance of duties by the Directors and senior management
Zuo Hui (左輝)	47	December 1996	Supervisor	April 30, 2015	Supervising the performance of duties by the Directors and senior management
Li Aiping (李愛萍)	45	April 2015	Supervisor	April 30, 2015	Supervising the performance of duties by the Directors and senior management
Guan Wei (官偉)	41	June 2017	Supervisor	June 8, 2017	Supervising the performance of duties by the Directors and senior management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

Name	Age	Date of Joining/ Rejoining Our Company	Position	Effective Date of Appointment of the Current Role	Roles and Responsibilities
Wan Zhong (萬眾)	44	From July 1996 to June 2012 and rejoined in March 2016	General Manager	July 15, 2016	Day-to-day overall management and operations of our Company
Zhou Jianqu (周建堯)	45	January 1999	Vice General Manager	October 26, 2011	Assisting the General Manager with the day-to-day management of the business operations of our Company
He Chuangye (賀創業)	42	October 2015	Vice General Manager and secretary to the Board	April 7, 2016	Compliance, research and development and information and technology matters
Fu Jiguang (付吉廣)	48	May 2001	Chief Risk Management Officer	July 27, 2016	Risk management of the operations and investment of our Company
Ma Wenbo (馬文波)	44	November 2013	Chief Financial Officer	July 24, 2014	Financial and accounting related matters of our Company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

As of the date of this prospectus, our Board of Directors consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. Pursuant to our Articles of Association, our Directors are elected and appointed by our Shareholders at a Shareholders' meeting for a term of three years, which is renewable upon re-election and re-appointment.

Pursuant to our Articles of Association, the functions and powers of the Board include, among other things:

- convening Shareholders' meetings and reporting the Board's work at the shareholders' meetings;
- implementing the resolutions passed at Shareholders' meetings;
- determining our business plans and investment plans;
- formulating our annual financial budget and financial accounts;
- formulating our profits distributions plans and plans on making up losses;
- formulating our proposals for the increase or reduction of registered capital and issue and listing of bonds or other securities of our Company;
- exercising other powers and functions as conferred by the laws, regulations, the listing rules where our shares are listed, the general meetings and our Articles of Association.

We have entered into service contracts with each of our executive Directors, non-executive Directors and independent non-executive Directors. Pursuant to our Articles of Association, the term of office for each of the Directors shall be three years. A description of the business experience of each Director is set out below.

Executive Directors

Ms. Wang Yingli (王映黎), aged 56, was approved to serve as our executive Director on July 24, 2014 and was approved to serve as the Chairperson on August 19, 2016 by the Shandong Office of CBRC. She is responsible for the overall management of our Company's business strategies, corporate governance and operations. Ms. Wang has approximately 25 years of experience in the trust industry. She joined our Company in December 1992 and has served various positions since then, including, among others, the section chief of the general office and the director of the computer office from December 1992 to October 1998, the senior operation manager of the fund projects management department of our Company from October 1998 to December 2000, the manager of the

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

fund loans management department of our Company from January 2001 to June 2002 and the vice general manager of our Company from June 2002 to August 2013. She was appointed by the Board as the general manager of our Company in September 2013 and served in the position until March 2016, and was primarily responsible for the day-to-day management of our Company. She has been the general secretary to the Party Committee since August 2013. She is currently a member of the communist party committee of Lucion Group. Prior to joining our Company, Ms. Wang was an engineer in the experimental center of Shandong University in the PRC from February 1981 to December 1992. She has been serving as a non-executive director and the vice-chairperson of the board of directors of Huadian Power International Corporation Limited (華電國際電力股份有限公司), (Stock Exchange listed (stock code: 1071)) since April 2003 and May 2014, respectively. Further, Ms. Wang currently serves as a director in a number of companies in which our trusts invested. She was accredited as a senior engineer by the Engineering and Technical Profession Senior Appraisal Committee of Shandong Province (山東省工程技術職務高級評審委員會) in December 1996. She was granted qualifications to trade in futures by China Futures Association in November 2010 and to trade in securities by Securities Association of China in March 2011. Ms. Wang graduated from the Department of Electronics of Shandong University in the PRC in January 1981 and also obtained her master's degree in business administration from Nanyang Technological University in Singapore in May 2005.

Mr. Wan Zhong (萬眾), aged 44, was appointed as our executive Director on July 5, 2016. He was appointed by the Board as the General Manager of our Company on March 30, 2016 and has been serving in the position since then. Mr. Wan is currently the vice general secretary to the Party Committee. He is mainly responsible for the day-to-day management and operations of the Company. Mr. Wan has over 21 years of experience in the trust and investment industries. He joined our Company in July 1996 and has served various positions in our Company since then. He served in the human resources department and then the fund projects management department from July 1997 to January 2001. From January 2001 to April 2006, he served as the project manager, the operation manager of the fund loans management department, the deputy manager and then the manager of the fund investments department of our Company. He was the manager of the trust development department and the second division of trust of our Company from April 2006 to January 2011. He then served as the vice general manager of our Company from January 2011 to June 2012. From June 2012 to March 2013, he served as the vice general manager of Shandong Luxin Industrial Co., Ltd. (山東魯信實業集團有限公司) as well as the vice general manager of Shandong Luxin Hengji Investment Co., Ltd. (山東魯信恆基投資有限公司), a company principally engaged in investment activities and corporate management consulting services. He served as the general manager of Shandong Luxin Industrial Co., Ltd. from March 2013 to March 2014 and has been serving as the chairperson of the board of directors and a director in the same company since September 2013. He served as a director of Luxin Venture Capital (Shanghai Stock Exchange listed (stock code: 600783)) from May 2016 to January 2017. Mr. Wan has been serving as the chairperson of First-Trust Fund Management Co., Ltd. since July 2017. Mr. Wan was accredited as a senior economist in February 2006 by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東省經濟專業職務高級

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評審委員會)。He graduated from Shandong Economics Academy (山東經濟學院) in the PRC with a bachelor's degree in international trade in July 1996. He also obtained his master's degree in management from Tianjin Finance Academy (天津財經學院) in the PRC in December 2002.

Non-executive Directors

Mr. Xiao Hua (肖華), aged 52, is the Vice-Chairperson of the Board and a non-executive Director. He was approved to serve in this position by Shandong Office of CBRC on July 31, 2017. Mr. Xiao is responsible for providing strategic advice and making recommendations on the operations and management of the Company, as well as assisting the Chairperson with her work, and performing the Chairperson's functions and duties when she is unable to or fails to perform her duties. Mr. Xiao has served as an executive director, the general secretary to the communist party committee and the chairman of the labor union of CNPC Assets Management, a substantial Shareholder of our Company, since July 2016. Mr. Xiao has also been the chairman, an executive director, the general secretary to the communist party committee and the chairman of the labor union of Kunlun Trust Co., Ltd. since July 2016. Mr. Xiao has approximately 30 years of experience in accounting and management in several subsidiaries of China National Petroleum Corporation. Mr. Xiao worked for approximately 14 years in Liaoyang Petrochemical Fiber Company (遼陽石油化纖公司), a state-owned enterprise under China National Petroleum Corporation, from 1987 to 2001, and served various positions, including as an accountant from July 1987 to May 1994; first as the deputy section chief from May 1994 to June 1996 and then as the section chief of the treasury section of the finance department; as the deputy director of the finance department from February 1998 to July 1999; as the deputy director of the finance department (costs and assets) from July 1999 to November 1999, and as the director of the finance and assets department from November 1999 to June 2001. Mr. Xiao worked in Eastern China Chemical Sales Branch (華東化工銷售分公司) of China National Petroleum Corporation from 2001 to 2016, including as the deputy manager and the general accountant from June 2001 to July 2010, as a member of the communist party committee from February 2006 to July 2010, as the deputy general manager from July 2010 to July 2014, as the general secretary to the communist party committee, secretary to the commission for inspecting discipline and the chairman of the labor union from July 2010 to July 2016, and as the general manager from July 2014 to July 2016.

Mr. Xiao was accredited as a senior economist (professor level) by China National Petroleum Corporation in August 2015. Mr. Xiao obtained a bachelor's degree in accounting from Shenyang University of Technology (瀋陽工業大學) in the PRC in July 2001 through long distance learning courses, and an executive master of business administration degree from Fudan University (復旦大學) in the PRC in June 2004.

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Mr. Jin Tongshui (金同水), aged 52, was appointed as a non-executive Director on August 21, 2012. He is primarily responsible for providing strategic advice and making recommendations on the operations and management of our Company. Mr. Jin has over 29 years of experience in the financial industry. From July 1988 to June 1995 and from June 2000 to December 2011, he served various positions in our Company, including the project manager as well as the manager of the finance department and the risk management department of our Company. Apart from his positions in our Company, Mr. Jin also served various positions in other companies engaged in financial and investment activities. From July 1995 to May 2000, he was the finance manager of Luxin Investment Company Limited (魯信投資有限公司), a company incorporated in Hong Kong. From January 2012 to December 2014, he served several positions in Lucion Group, including the department chief of its department of property rights management and the department chief of its investment and development department. He also served as the director of Minsheng Securities Co., Ltd. (民生證券股份有限公司), a company principally engaged in securities brokerage and securities investment consulting services, from December 2014 to July 2016. Since December 2014, he has been the chairperson of the board of directors of Shandong Provincial Financial Asset Management Co., Ltd. (山東省金融資產管理股份有限公司) He was certified as an accountant by the Ministry of Finance of the PRC in May 2002. Mr. Jin graduated from the Department of Finance of Shandong Economics Academy in the PRC in December 1993, and obtained a bachelor's degree in accounting jointly issued by Beijing Technology and Business University and China Central Radio and TV Virtual University (中央廣播電視大學) (now known as the Open University of China (國家開放大學)) in the PRC in May 2008.

Independent Non-executive Directors

Mr. Yen Huai-chiang (顏懷江), aged 44, was appointed as an independent non-executive Director on November 24, 2015 and is responsible for providing independent advice on the operations and management of our Company. Mr. Yen has over 11 years of experience in the financial investment and asset management industries. He served as an associate director as well as a client advisor in the Wealth Management & Personal & Corporate Division of Taipei and Taichung branches of UBS AG from August 2006 to March 2008 and from August 2006 to December 2010, respectively. From December 2010 to February 2013, he served as the associate director of UBS Securities Co. Limited, where he was primarily responsible for wealth management affairs. He is the founder and the executive director of Panhe Family Office (磐合家族辦公室), an institute principally engaged in family wealth management. He was a special lecturer of the Certified Private Banker program and the CERTIFIED FINANCIAL PLANNER™ Certification Education Program from June 2009 to June 2014. Mr. Yen has been a CERTIFIED FINANCIAL PLANNER professional conferred by the Financial Planning Standards Board (國際金融理財標準委員會) since April 2009. He obtained a degree of master of science in finance from Golden Gate University in the United States in December 1998 and he has been pursuing his doctoral degree in finance in Jinan University (暨南大學) in the PRC since September 2012.

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Mr. Ding Huiping (丁慧平), aged 61, was appointed as an independent non-executive Director on September 1, 2015 and is responsible for providing independent advice on the operations and management of our Company. Mr. Ding has more than 13 years of experience working as an independent non-executive director and a member/chairperson of the audit committee of listed companies in the PRC and Hong Kong. He has been serving in the School of Economics and Management in Beijing Jiaotong University since December 1993 and became a professor and a doctoral supervisor in accounting in 1999 and 2000, respectively. Since July 2007, he has been serving as the head of the Research Center of China Enterprise Competitiveness (中國企業競爭力研究中心). From February 2009 to March 2012, Mr. Ding served as an independent director and chairperson of the audit committee of Road & Bridge International Co., Ltd. (路橋集團國際建設股份有限公司), (a former Shanghai Stock Exchange listed company with stock code 600263). He has also been serving as an external supervisor of China Merchants Bank Co., Ltd. (招商銀行股份有限公司) since June 28, 2016.

In addition, Mr. Ding currently holds or had held directorship in several listed companies, including those set out below:

Name of Entity	Principal Business	Place of Listing and Stock Code	Position and Period of Time
Shandong Xinneng Taishan Power Generation Co., Ltd. (山東新能泰山發電股份有限公司)	electricity generation and production and supply of electricity facilities	Shenzhen Stock Exchange (stock code: 000720)	an independent director from June 2003 to November 2009
China Merchants Bank Co., Ltd.	provision of corporate and personal banking services, conducting treasury business, provision of asset management and trustee services and other financial services	Stock Exchange (stock code: 3968) Shanghai Stock Exchange (stock code: 600036)	an independent director from May 2003 to May 2006
China International Marine Containers (Group) Co., Ltd. (中國國際海運集裝箱(集團)股份有限公司)	marine containers and transport vehicles production	Stock Exchange (stock code: 2039) Shenzhen Stock Exchange (stock code: 000039)	an independent non-executive director and chairperson of the audit committee from May 2010 to June 2013

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Name of Entity	Principal Business	Place of Listing and Stock Code	Position and Period of Time
China Merchants Securities Co., Ltd. (招商證券股份有限公司)	securities broker and securities investment consulting service	Shanghai Stock Exchange (stock code: 600999)	an independent director from December 2014 to July 2017
Huadian Power International Corporation Limited (華電國際電力股份有限公司)	construction and management of power plants	Stock Exchange (stock code: 1071) Shanghai Stock Exchange (stock code: 600027)	an independent non-executive director from October 2003 to June 2009 and since May 2014
Metro Land Corporation Ltd. (京投銀泰股份有限公司)	real estate development	Shanghai Stock Exchange (stock code: 600683)	an independent director since April 2015

From September 1987 to December 1993, Mr. Ding served as a visiting researcher in Linköping University in Sweden. He obtained his degree of bachelor in engineering from Northeastern University (formerly known as Northeastern Engineering College) in the PRC in January 1982. He obtained his associate doctoral degree in production economics in December 1991 and a doctoral degree in production economics in March 1993 from Linköping University in Sweden. Taking into account Mr. Ding's past experiences and qualifications, the Company takes the view that he is experienced in handling accounting or financial matters, familiar with the financial statements, internal control and risk management system of listed companies and has appropriate accounting or related financial management expertise.

Ms. Meng Rujing (孟茹靜), aged 40, was appointed as an independent non-executive Director on September 6, 2016 and is responsible for providing independent advice on the operations and management of our Company. Ms. Meng is a principal lecturer in the Faculty of Business and Economics in the University of Hong Kong, and a director of the Master of Finance Programme in the University of Hong Kong. She has over 13 years of research and teaching experience in the financial industry. The research areas she mainly focuses on include capital markets and investments, real options, corporate finance and risk management. Ms. Meng received the SAAJ Research Excellence Award in Corporate Finance granted by Asian FA 2008 International Conference (亞洲金融學會2008年年會). She also received research funding sponsored by the University of Hong Kong and the Research Grants Council of Hong Kong. She acted as an anonymous referee for some international academic journals and the Research Grants Council of Hong Kong. Ms. Meng also received a number of teaching awards, including, among others, the International MBA Teaching Award jointly granted by the University of Hong Kong and Fudan University in 2014 as well as the Teaching Awards and the Outstanding Teacher Awards granted by the Faculty of Business and Economics of the University of Hong Kong in 2006 and 2012,

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respectively. She served as an assistant professor in the School of Economics and Finance and the School of Business from July 2004 to June 2010 and an assistant professor in the School of Economics and Finance from July 2010 to June 2012, in the University of Hong Kong, respectively. She has been a principal lecturer in the Faculty of Business and Economics in the University of Hong Kong since May 2013. She was a master's thesis advisor appointed by the Shenzhen Graduate School of Business in Peking University from June 2006 to June 2008. She was a co-director of the Master of Finance Programme in the University of Hong Kong in 2014, and has been a director of this program since 2015. Ms. Meng majored in finance and obtained her bachelor's degree in management from Guanghua School of Management of Peking University in the PRC in July 1999. She obtained her degree of Ph.D. in finance from Fuqua School of Business in Duke University in the United States in May 2004.

None of our Directors is personally related to any of our other Directors, Supervisors or senior management. None of our Directors has been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules and no other matters required to be disclosed under Rule 13.51(2) of the Listing Rules. Save as disclosed above, none of our Directors has been a director of other listed entities for the three years immediately preceding the date of this prospectus.

SUPERVISORS

The PRC Company Law requires a joint stock limited company to establish a board of supervisors. Our board of Supervisors is responsible for monitoring our financial matters and overseeing the actions of our Board and our management personnel. Our board of Supervisors currently consists of nine members. Pursuant to our Articles of Association, at least one-third of our Supervisors must be employee representatives elected by our employees. Mr. Tian Zhiguo, Ms. Li Aiping and Mr. Zuo Hui of the Supervisors are elected by our employees. The other Supervisors are elected and appointed by our shareholders at a shareholders' meeting. Each of the Supervisors elected by our employees or by our shareholder is appointed for a term of three years, which is renewable upon re-election and re-appointment.

Pursuant to our Articles of Association, the functions and powers of the board of Supervisors include, among other things:

- examining the financial affairs of our Company;
- supervising the performance of Directors and senior management members, and monitoring as to whether they had acted in violation of the law, administrative stipulations, Articles of Association and the resolutions passed at shareholders' meetings in the performance of their duties;
- requesting Directors and senior management members to rectify actions which are detrimental to the Company's interest;

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- convening extraordinary general meetings;
- making proposals to general meetings;
- exercising other powers as conferred by the law, administrative stipulations and our Articles of Association.

A description of the business experience of each Supervisor is set out below.

Mr. Yang Gongmin (楊公民), aged 59, was appointed as the chairperson of the board of Supervisors on May 4, 2016 and has been serving as our Supervisor since March 25, 2010. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 16 years of experience in the financial and investment industries. He joined our company as a manager in the research and development department in January 2001 and remained in the position till March 2004. From March 2004 to January 2010, he served as the manager of the investment management department of Lucion Group, where he was primarily responsible for overseeing the investment affairs of the company. He has been serving as the chairperson of the board of supervisors of Luxin Venture Capital (Shanghai Stock Exchange listed (stock code: 600783)) since April 2016 and two other subsidiaries of Lucion Group since August 2016. Mr. Yang graduated from Shandong University in the PRC with a bachelor's degree in economics in July 1982. He obtained his master's degree in senior management business administration from Nankai University in the PRC in December 2005.

Mr. Wang Yuepu (王曰普), aged 55, was appointed as a Supervisor on July 21, 2016. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 17 years of experience in the financial and investment industries. He served as a non-executive Director of our Company from August 2012 to July 2016. From July 1982 to February 2000, he served various positions as a government officer in Weifang City, Shandong Province, including, among others, the deputy section chief and the section chief of the Planning Committee of Weifang City. He was the deputy director in the Electricity Construction Office of Weifang City from February 2000 to September 2004. He served as a director of Chtc Helon Co., Ltd. (恒天海龍股份有限公司) (Shenzhen Stock Exchange listed (stock code: 000677)) from August 15, 2013 to August 24, 2015. He was a member of the communist party committee of Weifang Investment from September 2004 to March 2014 and has been serving as the general secretary to the communist party committee of the company since March 2014. He has been the general manager and the chairperson of the board of directors of Weifang Investment since December 2011 and since March 2014, respectively. He has been serving as a non-executive director of Weichai Power Co., Ltd. (Shenzhen Stock Exchange listed (stock code: 000338) and Stock Exchange listed (stock code: 2338)) since June 30, 2014 and has been serving as a director of Weichai Heavy Machinery Co., Ltd. (濰柴重機股份有限公司) (Shenzhen Stock Exchange listed (stock code:00880)) since April 29, 2012. Mr. Wang was accredited as a senior economist by Shandong Economic Professional Accreditation Senior Appraisal Committee in December 2002. He graduated from the

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Correspondence College of the Party School of the Central Committee of the Communist Party of China in the PRC in December 1995, where he majored in economics administration. He obtained his master's degree in business administration from Nankai University (南開大學) in the PRC in December 2010.

Mr. Hou Zhenkai (侯振凱), aged 35, was appointed as a Supervisor on May 4, 2016. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 9 years of experience in the legal and compliance area. Before joining our Company, he was a lawyer in the Qingdao office of King & Wood Mallesons in the PRC, a law firm, from July 2008 to December 2012. He has been serving in the risk and compliance department of Lucion Group since January 2013 and has been serving as the deputy department chief since March 2016, where he was primarily responsible for the legal affairs of the company. He has also been serving as the supervisor of Shandong Zhonglu Oceanic Fishery Company Limited (山東省中魯遠洋漁業股份有限公司), (Shenzhen Stock Exchange listed (stock code: 200992)), a company principally engaged in ocean-going fishing since May 2016. He was qualified to trade in securities by Securities Association of China in November 2007 and to trade in funds by Asset Management Association of China in April 2016. Mr. Hou graduated from Jilin University in the PRC with a bachelor's degree in law in July 2005. He obtained his master's degree in civil and commercial law from Shandong University in the PRC in June 2008.

Mr. Chen Yong (陳勇), aged 44, was appointed as a Supervisor on September 26, 2014. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 18 years of experience in the financial industry. Prior to joining our Company, Mr. Chen served in different departments in China National Petroleum Xinjiang Sales Company (中國石油新疆銷售公司), including the general office and the finance and audit department of the company, consecutively, from July 1992 to August 1999. He then served as the deputy division chief of the finance division and the division chief of the corporate management division from August 1999 to September 2010 of China National Petroleum Xinjiang Sales Company. He has been serving as the general manager of the equity investment department of Kunlun Trust Co., Ltd. since September 2010 and the division chief of CNPC Assets Management since February 2011, in which positions, he is primarily responsible for the day-to-day management of the equity investment affairs of the companies. Mr. Chen was accredited as a senior accountant by China National Petroleum Corporation in December 2007. He graduated from Xinjiang University in the PRC with a bachelor's degree in computer application in September 1999 and obtained his master's degree in business administration from Xinjiang University of Finance and Economics in the PRC in July 2009.

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Mr. Wu Chen (吳晨), aged 42, was appointed as a Supervisor on May 29, 2015. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 17 years of experience in the financial industry. From July 2000 to October 2003, Mr. Wu served in the PBOC Jinan Branch, including, among others, as its deputy chief clerk. From October 2003 to November 2012, he served various positions in the Shandong Office of CBRC, including as the section chief, the deputy division chief and the supervisory research analyst, consecutively. He has been serving as the general manager and the director of Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司) since July 2013. Mr. Wu was accredited as a senior economist by the Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳) in December 2014. He is a project investment evaluation expert of the Council of Social Security Fund of Shandong Province (山東省社會保障基金理事會). Mr. Wu graduated from Shandong University in the PRC with a bachelor's degree in international economics in July 1997. He also obtained his master's degree in political science and economics from Shandong University in the PRC in June 2000.

Mr. Tian Zhiguo (田志國), aged 45, was appointed as a Supervisor on December 30, 2011. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 12 years of experience in the financial and trust industries. He joined our Company in July 2005 and served several positions in our Company since then. He served as the project manager and vice general manager of the fifth division of trust of our Company from April 2008 to October 2014, consecutively. He has been serving as the general manager of the fifth division of trust of our Company since October 2014. Prior to joining our Company, Mr. Tian worked in the Electronic Economic Trading Center of Shandong Province (山東省電子經濟貿易中心), an entity principally engaged in the trading of electronic products, from July 1994 to August 2002. He graduated from Shandong University in the PRC with a master's degree in law in June 2005.

Mr. Zuo Hui (左輝), aged 47, was appointed as a Supervisor on April 30, 2015. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. He has over 20 years of experience in the legal and compliance area of the financial industry. Since he joined our Company in December 1996, Mr. Zuo served in different departments of our Company, including the legal department, the funds management department and the risk management department from December 1996 to March 2015. He has been the deputy manager of the compliance and legal department of our Company since March 2015. Before joining our Company, Mr. Zuo served in Jinan Refinery (濟南煉油廠) from August 1992 to October 1994. From October 1994 to December 1996, he was an in-house counsel in the Shandong Film and Television Legal Department (山東省影視律師事務所). Mr. Zuo graduated from Beijing Union University in the PRC with a bachelor's degree in law in July 1992. He obtained his master's degree in law from China University of Political Science and Law in the PRC in June 2001.

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Ms. Li Aiping (李愛萍), aged 45, was appointed as a Supervisor on April 30, 2015. Ms. Li is currently the deputy office manager of the Party Committee and the discipline inspection committee of the Company. She is responsible for supervising the performance of duties by the Directors and senior management of our Company. She has over 12 years of experience in human resources management. She has been the deputy chief to the communist party committee and disciplinary committee of our Company since May 2015. Prior to joining our Company, she served in the No. 26 Group Army in the Jinan Military Region (濟南軍區26集團軍) in the PRC from March 1990 to June 2001. From July 2001 to December 2004, she was an officer in the Job Transferring Office of the Political Department of Military Region in Shandong Province (山東省軍區政治部轉業辦). She worked at the human resources department of Lucion Group from January 2005 to April 2015. She holds a certification of senior human resources professional granted by the Ministry of Labor and Social Security of the PRC (中華人民共和國勞動和社會保障部) in August 2008. Ms. Li graduated from the department of industrial and commercial department of Shandong Economics Academy in the PRC, majoring in trade economics in July 1994. She also obtained a bachelor's degree in law from Jinan Army Academy (濟南陸軍學院) in the PRC in June 2000.

Mr. Guan Wei (官偉), aged 41, was appointed as a Supervisor on June 8, 2017. He is responsible for supervising the performance of duties by the Directors and senior management of our Company. Mr. Guan has been serving as the deputy general manager of Jinan Energy Investment, a company principally engaged in the investment and assets management businesses, since August 2016. Mr. Guan has also been the deputy general manager of Jinan Economics and Trading Industrial Investment Corporation (濟南經貿實業投資總公司), a company engaged in the wholesale and retailing of construction materials and hardware, since December 2012. Mr. Guan has over 19 years of experience in engineering. Mr. Guan joined Jinan Energy Investment in July 1998, and has served in various positions since then: first as an intern from July 1998 to July 1999, then as a technician from July 1999 to July 2001, as an assistant engineer from September 2001 to November 2009, as the deputy director of general office from November 2007 to May 2013, as an engineer from November 2009 to May 2013, and as the director of general office from May 2013 to August 2016. Mr. Guan also worked as the assistant to the general manager in Jinan Jihua Mansion Operation and Management Co., Ltd.(濟南吉華大廈運營管理有限公司) from November 2009 to December 2012.

Mr. Guan was accredited as an engineer by Jinan Engineering and Technology Service Intermediate Review Committee (濟南市工程技術服務中級評審委員會) in December 2016. In November 2009, Mr. Guan was awarded Third-Class Merits and was recognized as an "Advanced Individual" (先進個人) by Jinan Municipal Government. Mr. Guan graduated from Xi'an Jiaotong University (西安交通大學) in the PRC in July 1998 majoring in thermal engineering, and obtained a bachelor's degree in accounting from Shandong Finance College (山東財政學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC in July 2004. Mr. Guan graduated from Shandong Economics College (山東經濟學院, now known as Shandong University of Finance and Economics (山東財經大學)) in the PRC in June 2010 with a master's degree majoring in business administration.

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None of our Supervisors is personally related to any of our Directors, other Supervisors or senior management. None of our Supervisors has been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules and no other matters required to be disclosed under Rule 13.51(2) of the Listing Rules. Save as disclosed herein, None of our Supervisors has been a director of other listed entities for the three years immediately preceding the date of this prospectus.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of the business of our Company. A description of the business experience of each senior management member is set out below.

Mr. Wan Zhong (萬眾), aged 44, is the General Manager of our Company, primarily responsible for the day-to-day overall management and operations of our Company, and was appointed on July 15, 2016. Please see “— Directors — Executive Directors — Mr. Wan Zhong” above for his biography.

Ms. Zhou Jianqu (周建堯), aged 45, is the Vice General Manager of our Company and was appointed on October 26, 2011. She is mainly responsible for assisting the General Manager with the day-to-day management of the business operations of our Company. Ms. Zhou has been the chairperson of Zhongyue Capital Management Co., Ltd. (中閱資本管理股份公司) since its establishment in March 2017. Ms. Zhou has over 18 years of experience in the financial and trust industries. She joined our Company in January 1999 and served several positions in different departments of our Company since then. She served in the securities department and then in the trust investment banking department of our Company from January 1999 to January 2001, consecutively. She then served as the project manager, the operation manager, the deputy manager and the manager in the fund trust department of our Company consecutively from January 2001 to March 2008. From March 2008 to January 2011, she served as the manager in the fifth division of trust in our Company. Prior to joining our Company, she served in Jinan Kuaixin Industrial Group Company Limited (濟南快信實業集團公司), a company principally engaged in the development and sales of high-tech products, from July 1993 to December 1996. She also served in Shandong Enterprise Property Right Exchange (山東企業產權交易所) from December 1996 to January 1999. Ms. Zhou was accredited as an intermediate economist by the Ministry of Human Resources of the PRC in October 1998. She was granted qualifications to trade in securities by Securities Association of China in 2000, to trade in funds by Asset Management Association of China in 2000 and to trade in futures by China Futures Association in 2002. Ms. Zhou has been a member of the Finance and Economics Committee of the 18th People’s Congress of Lixia District, Jinan (濟南市歷下區第十八屆人民代表大會財政經濟委員會) since February 2017. Ms. Zhou studied in the department of mechanical engineering and obtained her bachelor’s degree in engineering from Beijing Light Industry Academy (北京輕工業學院) in the PRC in July 1993. She obtained her master’s degree in business administration from Shandong Economics Academy in the PRC in June 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. He Chuangye (賀創業), aged 42, is the Vice General Manager of our Company, the secretary to the Board, a member of the Party Committee and one of our joint company secretaries. He was appointed as the Vice General Manager and the secretary to the Board on April 7, 2016 and July 27, 2016, respectively. He is mainly responsible for the compliance, research and development and information and technology matters of our Company. Mr. He has over 18 years of experience in the financial industry. Prior to joining our Company, Mr. He served several positions in the financial supervisory institutions in China. From July 1999 to October 2003, he was a clerk in the PBOC Jinan Branch. He then served various positions consecutively in the Shandong Office of CBRC from October 2003 to September 2015, including the clerk, the deputy chief clerk, the chief clerk, the section chief, the deputy director of the general office and the deputy division chief in its Non-banking Financial Institution Regulatory Division (非銀行金融機構監管處). Meanwhile, he also served a temporary post as the deputy chief secretary of Yantai City Government from September 2013 to September 2014. Mr. He was granted the certificate of intermediate economist by the Ministry of Personnel of the PRC in November 2003. He graduated from the University of Hong Kong in Hong Kong with a master's degree in finance in November 2008.

Mr. Fu Jiguang (付吉廣), aged 48, was appointed as the Chief Risk Management Officer of our Company on July 27, 2016. He is responsible for risk management of the operations and investment of our Company. He has over 25 years of experience in the trust and financial industries. He joined our Company in May 2001 and served various positions in our Company from May 2001 to February 2007, including the operation manager of the investment banking operations department, the deputy manager of the investment banking department and the manager of the audit and legal department of our Company. From February 2007 to October 2011, Mr. Fu served as the chief financial officer of Shandong Zhonglu Oceanic Fisheries Co., Ltd. (Shenzhen Stock Exchange listed (stock code: 200992)) on secondment. From October 2011 to June 2016, he served as the manager of the fourth division of trust of our Company. Before joining our Company, he served in the investment department of Jining Trust Investment Company Limited (濟寧市信託投資公司), a company principally engaged in trust investment and management, from July 1992 to April 2001. He also served as the director and the vice general manager of Jining Liuzhuang Port Transportation Company Limited (濟寧市留莊港運輸總公司) from May 1994 to May 2001, where he was primarily responsible for the day-to-day management of the company. He was the director of Jinan Luban Bairong Properties Company Limited (濟南魯班百融置業有限公司) from July 2015 to March 2017 and has been serving as the director of Qihe County Jiqi Yellow River Bridge Management Company Limited (齊河縣濟齊黃河大橋經營管理有限公司) since October 2015. Mr. Fu was accredited as a senior economist by the Economic Professional Accreditation Senior Appraisal Committee of Shandong Province (山東經濟專業職務高級評審委員會) in October 2002. He obtained his bachelor's degree in industrial economics and his master's degree in corporate management from Shandong Economics Academy in the PRC in July 1992 and June 2007, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ma Wenbo (馬文波), aged 44, is the Chief Financial Officer of our Company and was approved to serve in this position by Shandong Office of CBRC on July 24, 2014. He is primarily responsible for financial and accounting related matters of our Company. Mr. Ma has over 20 years of experience in accounting. He was approved to serve as our Chief Financial Officer by the Board in November 2013. Prior to these positions, he gained extensive experience in accounting from his various positions with other companies. From July 1997 to June 2003, he served in China National Electronics Import and Export Shandong Co. Ltd. (中國電子進出口山東公司), primarily responsible for the accounting matters of the company. He then served as the manager of the finance department in Shandong Today's Coffee Company Limited (山東今日咖啡有限公司) from July 2003 to May 2005. He served in Shandong Luxin Industrial Co., Ltd. and Lucion Group from June 2005 to October 2013, consecutively, primarily responsible for the accounting matters of the companies. He has been serving as a director in Shandong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司) since April 2015. Mr. Ma served as a director in Jinding Leasing Co., Ltd. (金鼎租賃有限公司) from December 2014 to January 2017. Mr. Ma was accredited as a senior accountant by the Senior Review Committee of Accounting Professional Qualifications of Shandong Province (山東省會計專業資格高級評審委員會) in May 22, 2009 and has been a PRC certified public accountant accredited by the Association of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in December 2009. Mr. Ma graduated from Shandong Finance Academy (山東財政學院) in the PRC with a bachelor's degree in accounting in July 1997.

None of our senior management is personally related to any of our Directors, Supervisors or other senior management. None of the senior management has been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules and no other matters required to be disclosed under Rule 13.51(2) of Listing Rules. None of our senior management has been a director of other listed entities for the three years immediately preceding the date of this prospectus.

JOINT COMPANY SECRETARIES

Mr. He Chuangye (賀創業), aged 42, was appointed as one of our joint company secretaries on May 4, 2016. Please see “— Senior Management — Mr. He Chuangye” above for his biography.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Lai Siu Kuen (黎少娟) was appointed as one of our joint company secretaries on September 13, 2016. She has over 16 years of professional and in-house experience in company secretarial field. She is a senior manager of the listing services department of TMF Hong Kong Limited (達盟香港有限公司). She is currently the joint company secretary of other companies listed on the Stock Exchange, including Qingdao Port International Co., Ltd. (Stock Exchange listed (stock code: 6198)) and Bank of Qingdao Co., Ltd. (Stock Exchange listed (stock code: 3866)). She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. She obtained her bachelor of arts degree in accountancy from The Hong Kong Polytechnic University in Hong Kong in November 1997.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee on January 20, 2005 and amended its written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules on May 4, 2016. The audit committee consists of three members, namely Mr. Jin Tongshui, Mr. Ding Huiping and Ms. Meng Rujing. Mr. Ding Huiping has been appointed as the chairperson of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee include: (i) making recommendations regarding the appointment and removal of external auditors of our Company; (ii) reviewing the accounting policies and financial positions of our Company; (iii) reviewing and supervising the internal audit functions and internal supervision system of our Company; and (iv) reviewing and overseeing the risk management of our Company.

Human Resources and Nomination Committee

Our Shareholders and our Board approved the resolution to establish a human resources and nomination committee on May 4, 2016 with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Human Resources and Nomination Committee consists of one executive Director, being Ms. Wang Yingli, and two independent non-executive Directors, being Mr. Ding Huiping and Ms. Meng Rujing. Ms. Wang Yingli has been appointed as the chairperson of the Human Resources and Nomination Committee. The primary duties of the Human Resources and Nomination Committee include: (i) reviewing the composition of the Board of Directors and assess the ability and experience of Directors; (ii) making recommendations regarding the appointment and removal of Directors and the General Manager; and (iii) assessing the independence of the independent non-executive Directors.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Shareholders and our Board approved the resolution to establish a remuneration committee on May 4, 2016 with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of one executive Director, being Mr. Wan Zhong, and two independent non-executive Directors, being Ms. Meng Rujing and Mr. Yen Huai-chiang. Ms. Meng Rujing has been appointed as the chairperson of the Remuneration Committee. The primary duties of the Remuneration Committee include: (i) reviewing and making recommendations to the Board regarding remuneration policies for Directors and senior management; and (ii) supervising the implementation of remuneration policies.

Business Decision Committee

Our Company established a business decision committee (formerly known as Trust Business Decision Committee) on February 8, 2014. The Business Decision Committee consists of two executive Directors, being Ms. Wang Yingli and Mr. Wan Zhong, and one non-executive director, being Mr. Jin Tongshui. Ms. Wang Yingli has been appointed as the chairperson of the Business Decision Committee. The primary duties of the Business Decision Committee include: (i) reviewing and approving the collective trust businesses; (ii) reviewing and approving significant individual trusts if necessary, and (iii) reviewing and approving proprietary loans.

Trust Committee

Our Company established a trust committee on October 23, 2007. The Trust Committee consists of one non-executive Director, being Mr. Jin Tongshui, and two independent non-executive Directors, being Mr. Ding Huiping and Mr. Yen Huai-chiang. Mr. Yen Huai-chiang has been appointed as the chairperson of the Trust Committee. The primary duties of the Trust Committee include: (i) reviewing the due payment in relation to trust matters and the realization of interests of beneficiaries; (ii) supervising on the management and utilization of the trust properties under collective trusts; and (iii) reviewing and making recommendations on the operation of trust business of our Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Strategies and Risk Management Committee

Our Shareholders and our Board approved the resolution to establish a strategies and risk management committee on May 4, 2016. The Strategies and Risk Management Committee consists of three members, being Ms. Wang Yingli, Mr. Xiao Hua and Mr. Wan Zhong. Ms. Wang Yingli has been appointed as the chairperson of the Strategies and Risk Management Committee. The primary duties of the Strategies and Risk Management Committee include: (i) making recommendations on the long-term strategic development of the Company; (ii) reviewing and advising on the completeness, efficiency and reasonableness of the risk management system of the Company; and (iii) making recommendations on the risk management of the trust business of our Company.

COMPLIANCE ADVISOR

We have appointed Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors and Supervisors receive, in their capacity as our employees, compensation from our Company in the form of fees, salaries and allowances and benefits, discretionary bonuses and contribution to pension schemes.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration including fees, salaries and allowances and benefits, discretionary bonuses and contribution to pension schemes which were paid to our Directors for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 was RMB2.3 million, RMB2.7 million, RMB2.2 million and RMB1.1 million, respectively. During the Track Record Period, we did not pay any remuneration to our non-executive Directors who were nominated by our Shareholders to take up the directors' position in our Company because these non-executive Directors had been remunerated by our Shareholders directly for their service as our Director, being part of their job responsibilities of their working with our Shareholders.

The aggregate amount of remuneration including fees, salaries and allowances and benefits, discretionary bonuses and contribution to pension plans which were paid to our Supervisors for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 was RMB5.1 million, RMB4.0 million, RMB4.2 million and RMB2.2 million, respectively.

Save as disclosed in this prospectus, no other amounts have been paid or are payable by our Company to our Directors and Supervisors for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017.

The aggregate amount of remuneration including fees, salaries and allowances and benefits, discretionary bonuses and contribution to pension plans which were paid by our Company to the five highest paid individuals for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 was RMB26.8 million, RMB43.2 million, RMB43.0 million and RMB17.9 million, respectively.

No remuneration was paid by our Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in respect of the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017. Further, none of our Directors nor Supervisors waived or agreed to waive any remuneration during the same periods.

Under our arrangements currently in force as of the date of this prospectus, the aggregate remuneration (including benefits in kind and discretionary bonuses) payable to our Directors and Supervisors by our Company for the year ending December 31, 2017 is estimated to be approximately RMB6.1 million in aggregate.

Our Board will review and determine the remuneration and compensation packaged of our Directors, Supervisors and senior management, which will receive recommendation from the Nomination and Remuneration Committee following the Listing, taking into account salaries paid by comparable companies, and their time commitment, experience and level of responsibilities in our Company.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with a number of investors (the “Cornerstone Investors”), who have agreed to subscribe at the Offer Price (i) for 129,400,000 H Shares and (ii) for such number of additional H Shares that may be purchased with an aggregate amount of approximately HK\$800.6 million (rounded down to the nearest whole board lot of 1,000 H Shares).

Assuming an Offer Price of HK\$4.46 (being the low-end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 308,906,000, representing approximately (i) 11.92% of the Shares in issue upon the completion of the Global Offering and 47.74% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 11.54% of the Shares in issue upon the completion of the Global Offering and 41.51% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$4.95 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 291,137,000, representing approximately (i) 11.24% of the Shares in issue upon the completion of the Global Offering and 44.99% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 10.87% of the Shares in issue upon the completion of the Global Offering and 39.13% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$5.43 (being the high-end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 276,838,000, representing approximately (i) 10.69% of the Shares in issue upon the completion of the Global Offering and 42.78% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 10.34% of the Shares in issue upon the completion of the Global Offering and 37.20% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

To the best of the knowledge of our Company, each of the Cornerstone Investors is an independent third party. In addition, each of the Cornerstone Investor is independent of each other and makes independent investment decisions. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the relevant cornerstone investment agreements. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, and none of the Cornerstone Investors will become a substantial Shareholder. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and the shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares.

CORNERSTONE INVESTORS

The cornerstone placing forms part of the International Offering. The H Shares to be purchased by the Cornerstone Investors may be affected by any reallocation of the H Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in “Structure of the Global Offering – The Hong Kong Public Offering”. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on December 7, 2017.

OUR CORNERSTONE INVESTORS

Cornerstone Investor	Investment Amount/Number of H Shares agreed to be subscribed for by the Cornerstone Investors	Based on the Offer Price of HK\$4.95 (being the mid-point of the Offer Price range)			
		Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
		Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Jinan Finance Holding Group Co., Ltd.	129,400,000 H Shares	20.00%	17.39%	4.99%	4.83%
ICBC Asset Management Scheme Nominee	RMB243,000,000	8.94%	7.78%	2.24%	2.16%
Shandong Development & Investment Holding Group Co., Ltd	RMB200,000,000 ⁽¹⁾	7.29%	6.34%	1.82%	1.76%
China Merchants Bank Co., Ltd. Asset Management	US\$21,000,000	5.12%	4.45%	1.28%	1.24%
Shandong Guohui Investment Co., Ltd . . .	RMB100,000,000 ⁽¹⁾	3.64%	3.17%	0.91%	0.88%
Total		44.99%	39.13%	11.24%	10.87%

⁽¹⁾ Including brokerage, SFC transaction levy and Stock Exchange trading fee.

We set out below a brief description of our Cornerstone Investors.

Jinan Finance Holding Group Co., Ltd. (“Jinan Finance”)

Jinan Finance has agreed to subscribe for 129,400,000 H Shares at the Offer Price. Assuming no exercise of the Over-allotment Option, the total number of H Shares that Jinan Finance would subscribe for would represent approximately 20.00% of the Offer Shares, and approximately 4.9995% of the Shares in issue upon the completion of the Global Offering. Assuming full exercise of the Over-allotment Option, the total number of H Shares that Jinan Finance would subscribe for would represent approximately 17.39% of the Offer Shares, and approximately 4.8347% of the Shares in issue upon the completion of the Global Offering.

CORNERSTONE INVESTORS

Jinan Finance is a municipal class one enterprise and a PRC state wholly-owned company as approved to be established by Jinan Municipal Party Committee and Jinan Municipal People's Government. It is wholly-owned by Jinan City State-owned Assets Supervision and Administration Commission, which acts as investor for and on behalf of the municipal government. It undertakes the function of consolidating various financial resources at the municipal level and operating various kinds of financial businesses including banking, securities, insurance, equity trading, trust and other financial businesses. It was established in May 2013 and as of the Latest Practicable Date, it had a registered capital of RMB4,154 million.

ICBC Asset Management Scheme Nominee ("ICBC AM")

ICBC AM has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of RMB243 million (approximately HK\$286.4 million) at the Offer Price. Assuming an Offer Price of HK\$4.46 (being the low-end of the Offer Price range set forth in this prospectus), ICBC AM will subscribe for approximately 64,226,000 H Shares, representing approximately (i) 2.48% of the Shares in issue upon the completion of the Global Offering and 9.93% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 2.40% of the Shares in issue upon the completion of the Global Offering and 8.63% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$4.95 (being the mid-point of the Offer Price range set forth in this prospectus), ICBC AM will subscribe for approximately 57,868,000 H Shares, representing approximately (i) 2.24% of the Shares in issue upon the completion of the Global Offering and 8.94% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 2.16% of the Shares in issue upon the completion of the Global Offering and 7.78% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$5.43 (being the high-end of the Offer Price range set forth in this prospectus), ICBC AM will subscribe for approximately 52,752,000 H Shares, representing approximately (i) 2.04% of the Shares in issue upon the completion of the Global Offering and 8.15% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.97% of the Shares in issue upon the completion of the Global Offering and 7.09% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

ICBC AM is the asset management arm of Industrial and Commercial Bank of China Limited (a PRC commercial bank listed on both the Stock Exchange (stock code: 1398) and the Shanghai Stock Exchange (stock code: 601398)), the parent company of ICBC International Capital Limited (acting as joint bookrunner in the Global Offering) and ICBC International Securities Limited (acting as joint lead manager and underwriter in the Global Offering). ICBC AM offers comprehensive asset management services to different types of clients, including individuals, corporate clients, private banking clients and institutions in the PRC. The H Shares to be subscribed by ICBC AM are to be held on behalf of independent third parties.

CORNERSTONE INVESTORS

As ICBC AM is a connected client of ICBC International Capital Limited and ICBC International Securities Limited, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules to permit ICBC AM to participate in the Global Offering as a cornerstone investor, subject to the conditions as disclosed in “Waivers from Strict Compliance with the Listing Rules — Allocation of H Shares to Certain Cornerstone Investors who are Connected with One or More of the Joint Bookrunners and Underwriters.”

Shandong Development & Investment Holding Group Co., Ltd (“SDG”)

SDG has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of RMB200 million (approximately HK\$233.4 million) at the Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee). Assuming an Offer Price of HK\$4.46 (being the low-end of the Offer Price range set forth in this prospectus), SDG will subscribe for approximately 52,333,000 H Shares, representing approximately (i) 2.02% of the Shares in issue upon the completion of the Global Offering and 8.09% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.96% of the Shares in issue upon the completion of the Global Offering and 7.03% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$4.95 (being the mid-point of the Offer Price range set forth in this prospectus), SDG will subscribe for approximately 47,153,000 H Shares, representing approximately (i) 1.82% of the Shares in issue upon the completion of the Global Offering and 7.29% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.76% of the Shares in issue upon the completion of the Global Offering and 6.34% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$5.43 (being the high-end of the Offer Price range set forth in this prospectus), SDG will subscribe for approximately 42,984,000 H Shares, representing approximately (i) 1.66% of the Shares in issue upon the completion of the Global Offering and 6.64% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.61% of the Shares in issue upon the completion of the Global Offering and 5.78% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

SDG is a company established under the laws of the PRC and is owned by three shareholders, namely Shandong Development and Reform Commission, Shandong SASAC and Shandong Provincial Council for Social Security Fund as to 40%, 30% and 30%, respectively. Shandong Development and Reform Commission and Shandong SASAC are PRC government authorities whereas Shandong Provincial Council for Social Security Fund was established as a public institution under the laws of the PRC in December 2014

CORNERSTONE INVESTORS

by the People's Government of Shandong Province. SDG is a state-owned investment and operation company which mainly focuses on infrastructure construction and emerging industries in Shandong Province.

China Merchants Bank Co., Ltd. Asset Management (“CMBAM”)

CMBAM has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$21 million (approximately HK\$164 million) at the Offer Price. Assuming an Offer Price of HK\$4.46 (being the low-end of the Offer Price range set forth in this prospectus), CMBAM will subscribe for approximately 36,781,000 H Shares, representing approximately (i) 1.42% of the Shares in issue upon the completion of the Global Offering and 5.68% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.37% of the Shares in issue upon the completion of the Global Offering and 4.94% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$4.95 (being the mid-point of the Offer Price range set forth in this prospectus), CMBAM will subscribe for approximately 33,140,000 H Shares, representing approximately (i) 1.28% of the Shares in issue upon the completion of the Global Offering and 5.12% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.24% of the Shares in issue upon the completion of the Global Offering and 4.45% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$5.43 (being the high-end of the Offer Price range set forth in this prospectus), CMBAM will subscribe for approximately 30,210,000 H Shares, representing approximately (i) 1.17% of the Shares in issue upon the completion of the Global Offering and 4.67% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.13% of the Shares in issue upon the completion of the Global Offering and 4.06% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

CMBAM is a department of China Merchants Bank Co., Ltd. (“CMB”), which is a company incorporated in the PRC and listed on the Stock Exchange (stock code: 3968) and the Shanghai Stock Exchange (stock code: 600036). CMB's ultimate shareholder is China Merchants Group Ltd. CMBAM is mainly responsible for the overall investment operations of asset management business, research and development of relevant products and service systems, business risk management, and business operations support within the China Merchants Bank Co., Ltd group. China Merchants Group Ltd. operates as an investment holding company and specializes in three core business sectors: transportation and related infrastructure; financial investment and asset management; and property development and management. The H Shares to be subscribed by CMBAM are to be held on behalf of independent third parties.

CORNERSTONE INVESTORS

As CMBAM is a connected client of CMB International Capital Limited, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules to permit CMBAM to participate in the Global Offering as a cornerstone investor, subject to the conditions as disclosed in “Waivers from Strict Compliance with the Listing Rules — Allocation of H Shares to Certain Cornerstone Investors who are Connected with One or More of the Joint Bookrunners and Underwriters.”

Shandong Guohui Investment Co., Ltd (“SGI”)

SGI has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of RMB100 million (approximately HK\$116.7 million) at the Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee). Assuming an Offer Price of HK\$4.46 (being the low-end of the Offer Price range set forth in this prospectus), SGI will subscribe for approximately 26,166,000 H Shares, representing approximately (i) 1.01% of the Shares in issue upon the completion of the Global Offering and 4.04% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 0.98% of the Shares in issue upon the completion of the Global Offering and 3.52% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$4.95 (being the mid-point of the Offer Price range set forth in this prospectus), SGI will subscribe for approximately 23,576,000 H Shares, representing approximately (i) 0.91% of the Shares in issue upon the completion of the Global Offering and 3.64% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 0.88% of the Shares in issue upon the completion of the Global Offering and 3.17% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$5.43 (being the high-end of the Offer Price range set forth in this prospectus), SGI will subscribe for approximately 21,492,000 H Shares, representing approximately (i) 0.83% of the Shares in issue upon the completion of the Global Offering and 3.32% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 0.80% of the Shares in issue upon the completion of the Global Offering and 2.89% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

SGI is a company established under the laws of the PRC and is wholly and ultimately owned by Shandong SASAC. It undertakes the functions of operation and management of provincial state-owned enterprise reform and development fund, investment and financing of industrial projects, cultivation and development of emerging industries, restructuring and merger and acquisition of the state-owned property, custody management and market capitalization management and disposal of non-performing assets under the authority of the provincial State-owned Assets Supervision and Administration Commission.

CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (a) the underwriting agreement for the Hong Kong Public Offering and the underwriting agreement for the International Offering being entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in those underwriting agreements or as subsequently waived or varied by agreement of the parties thereto;
- (b) neither of the aforesaid underwriting agreements having been terminated;
- (c) the Offer Price having been agreed by the Joint Representatives (on behalf of the underwriters) and the Company in connection with the Global Offering;
- (d) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Main Board of the Stock Exchange;
- (e) the respective representations, warranties, undertakings, confirmations and acknowledgements of the relevant Cornerstone Investor being accurate, true and not misleading and there being no breach of the cornerstone investment agreement on the part of the relevant Cornerstone Investor; and
- (f) no laws having been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the cornerstone investment agreement and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, without the prior written consent of each of our Company and the Joint Representatives, it will not, whether directly or indirectly, at any time during the period of six months following and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement, other than transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that such wholly-owned subsidiary undertakes in writing to, and such Cornerstone Investor undertakes to procure that such wholly-owned subsidiary will, abide by the terms and restrictions on disposals imposed on such Cornerstone Investor.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$4.95 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.46 and HK\$5.43 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$2,783.8 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised; or approximately HK\$3,251.6 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$5.43 per Offer Share (being the high-end of the stated range of the Offer Price), we estimate that we will receive net proceeds of approximately HK\$3,075.4 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised; or approximately HK\$3,572.0 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$4.46 per Offer Share (being the low-end of the stated range of the Offer Price), we estimate that we will receive net proceeds of approximately HK\$2,503.0 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised; or approximately HK\$2,924.6 million, if the Over-allotment Option is exercised in full.

We estimate that the net proceeds from the sale of Sale Shares by the Selling Shareholders pursuant to the Global Offering (after deduction of estimated expenses payable by the Selling Shareholders in relation to the Global Offering), to be:

- approximately HK\$291.2 million, if the Over-allotment Option is not exercised, or approximately HK\$334.9 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$4.95 per Offer Share, being the mid-point of the stated range of the Offer Price;
- approximately HK\$319.4 million, if the Over-allotment Option is not exercised, or approximately HK\$367.3 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$5.43 per Offer Share, being the high-end of the stated range of the Offer Price;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$262.4 million, if the Over-allotment Option is not exercised, or approximately HK\$301.7 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$4.46 per Offer Price, being the low-end of the stated range of the Offer Price.

Based on a letter issued by NSSF (Shebaojijinf [2016] No. 156), all the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be remitted to an account designated by NSSF in accordance with the relevant PRC laws and regulations. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering.

Our capital base will be strengthened by net proceeds from the Global Offering. Such proceeds will be applied to support the expansion of our business via, (i) the establishment of new subsidiaries designated for particular business, such as real estate investment (being part of our proprietary business) and wealth management, and (ii) the acquisition of equity interests in financial institutions (such as regional commercial banks, securities companies and asset management companies) in the PRC and overseas possessing the necessary licenses. As of the Latest Practicable Date, we have not identified any specific target of such acquisition.

Net proceeds from the Global Offering will significantly increase our Net Capital and thereby enable us to significantly expand our various types of trust business. We expect to combine net proceeds from the Global Offering with our existing proprietary assets and allocate them into different asset classes in order to maintain and increase their value, create synergies with our trust business and maintain sufficient liquidity for our business operation.

UNDERWRITING

HONG KONG UNDERWRITERS

CCB International Capital Limited
Haitong International Securities Company Limited
BOCOM International Securities Limited
CMB International Capital Limited
ICBC International Securities Limited
ABCI Securities Company Limited
Head & Shoulders Securities Limited
Sinomax Securities Limited
Hao Tian International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are initially offering 64,708,000 H Shares (subject to reallocation) for subscription by the public in Hong Kong on, and subject to the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters),

the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers to subscribe for, or failing which to subscribe for themselves, the Hong Kong Offer Shares which are being offered but not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

- (1) there develops, occurs, exists or comes into force:
 - (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other Governmental Authority (as defined in the Hong Kong Underwriting Agreement) in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “Relevant Jurisdiction”); or
 - (b) any change or development involving a prospective change, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or credit or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currencies) in or affecting any Relevant Jurisdiction; or
 - (c) any local, national, regional or international event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God or interruption in transportation, outbreak of diseases, epidemics or pandemics including, but not limited to, SARS, swine or avian flu, H5N1, H5N6, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or

UNDERWRITING

- (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (e) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (f) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
- (g) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (h) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (i) the issue or requirement to issue by the Company of a supplement or amendment to this prospectus, the Application Forms, the preliminary offering circular or the offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, save that such issue was made with the prior written consent of the Joint Representatives; or
- (j) any change or development involving a prospective change which has the effect of the materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (k) any litigation or claim being threatened or instigated against the Company or any Director; or

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- (l) any contravention by the Company or any Director of the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law or the Listing Rules; or
- (m) an Governmental Authority in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against the Company or any Director; or
- (n) the chairman vacating his office or any Director being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company; or
- (o) any valid demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of the Company or the Company making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of the Company or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or anything analogous thereto occurs in respect of the Company; or
- (p) any adverse change or prospective adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, shareholder's equity, earnings, results of operations, prospects, position or condition (financial or trading or otherwise) of the Company and the trust schemes that the Company has control and are consolidated for the purpose of preparing the financial statements of the Company; or
- (q) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (r) a prohibition on the Company for whatever reason from allotting or selling the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters): (A) is or will be or is likely to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, operation, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole; or (B) has or will have or is likely to have a

UNDERWRITING

material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Hong Kong Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms or the Formal Notice: or (D) would have or is likely to have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (2) there has come to the notice of any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
 - (a) that any statement contained in the Hong Kong public offering documents and/or any notices, announcements, advertisements issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong public offering documents and/or any notices, announcements, advertisements, so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (c) either (i) there has been a material breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company or any Selling Shareholders or (ii) any of the representations, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading in any material respect; or

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- (d) any of the Experts (other than the Joint Sponsors) has withdrawn their respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (e) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement, which liability has a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or
- (f) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (g) a significant portion of the orders in the book building process at the time of the International Underwriting Agreement is entered into, or the investment commitments by any corporate or cornerstone investors after signing of agreements with such corporate or cornerstone investors, have been withdrawn, terminated or cancelled or if any corporate or cornerstone investors is unlikely to fulfill its obligation under the respective agreement; or
- (h) admission for the listing of, and permission to deal in, the Offer Shares on the Main Board of the Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, such admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (i) the Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

then the Joint Representatives may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings pursuant to the Hong Kong Listing Rules and the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Stock Exchange that within six months from the Listing Date, no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) shall be issued by the Company or form the subject of any agreement to

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such an issue (whether or not such issue of shares or securities of the Company will be completed within six months from the Listing Date), except for the Offer Shares to be issued under certain circumstances prescribed by Rule 10.08 of the Listing Rules or pursuant to the Global Offering (including the Over-allotment Option).

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement and up to and including the date falling six months from the Listing Date (the “First Six Month Period”), we will not, without the prior written consent of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, claim, defect, right, interest or preference granted to any third party, or any other encumbrance or security interest of any kind (the “Encumbrance”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other equity securities of the Company, as applicable), or deposit any share capital or other equity securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or any other equity securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or

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- (d) offer to or agree to do any of the foregoing or announce any intention to do so, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities of the Company, in cash or otherwise or publicly disclose that the Company will or may enter into any transaction described above. The Company further agrees that, in the event of an issue or disposal of any H Shares or any interest therein after the First Six Month Period expires, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Company will, create a disorderly or false market for any H Shares or other equity securities of the Company.

(B) Undertakings by the Controlling Shareholders

In accordance with Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), it will not and will procure that the relevant registered holder (if any) of the H Shares in which it has a beneficial interest will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the requirements of the Listing Rules:

- (a) in the First Six-month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares in respect of which it is shown to be the beneficial owner in this prospectus (the “Relevant H Shares”); and
- (b) in the period of six months commencing from the expiry of the First Six-month Period (the “Second Six-month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant H Shares to such extent that, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be a Controlling Shareholder for the purposes of the Listing Rules.

In accordance to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to the Company that, during the First Six-Month Period and the Second Six-Month Period (as applicable), it will,

- (i) when it pledges or charges any H Shares or other securities of the Company in respect of which it is the beneficial owner in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan relying on Note 2 to Rule 10.07(1) of the Listing Rules, immediately inform the Company in writing of any such pledge or charge and the number of H Shares or other securities of the Company so pledged or charged; and

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- (ii) when it receives any indication, either verbal or written, from any such pledgee or chargee of the H Shares or other securities of the Company that any of the pledged or charged H Shares or such other securities of the Company will be disposed of, immediately inform the Company in writing of any such indication.

We will also, as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders, inform the Stock Exchange and disclose such matters as soon as possible by way of an announcement as required under the Listing Rules.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we (for ourselves and on behalf of the Selling Shareholders) will enter into the International Underwriting Agreement with the Joint Representatives (for themselves and on behalf of the International Underwriters) on or about the Price Determination Date, shortly after the determination of the Offer Price. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers to subscribe for, or failing which to subscribe for themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

Over-allotment Option

Under the International Underwriting Agreement, it is expected that our Company and the Selling Shareholders will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives on behalf of the International Underwriters, in whole or in part at one or more times, at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot, and the Selling Shareholders to sell up to an aggregate of 97,042,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

Commissions and Expenses

The Hong Kong Underwriters will receive a commission of 1.8% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commissions. The Underwriters may receive an additional incentive fee of up to 0.8% of the Offer Price of the Hong Kong Offer Shares.

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For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay the underwriting commission attributable to such reallocated Hong Kong Offer Shares to the Joint Representatives and the relevant International Underwriters (but not the Hong Kong Underwriters). The underwriting commission was determined between the Company (for ourselves and on behalf of the Selling Shareholders) and the Underwriters after arm's length negotiations with reference to current market conditions.

The aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$128.3 million (assuming (i) an Offer Price of HK\$4.95 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), (ii) the full payment of the discretionary incentive fee and (iii) the Over-allotment Option is not exercised at all), are payable and borne by our Company.

Hong Kong Underwriters' Interest in our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

INDEPENDENCE OF THE JOINT SPONSORS

BOCOM International (Asia) Limited and Haitong International Capital Limited, each being a Joint Sponsor, satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

CCB International Asset Management Limited ("CCBIAM"), a fellow subsidiary of CCB International Capital Limited, is a joint venture partner of Lucion Group, a Controlling Shareholder, in respect of Ocean Blue Economic Investment Management Company Limited (藍色經濟投資管理有限公司) ("Blue Investment"). The ultimate beneficial owner of CCBIAM is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939), which is the ultimate controlling shareholder of CCB International Capital Limited. As of the Latest Practicable Date, Blue Investment was owned by Lucion Group and CCBIAM as to 51% and 49%, respectively. Accordingly, Blue Investment, a member of sponsor group of CCB International Capital Limited (as defined under the Listing Rules),

UNDERWRITING

will become a core connected person of our Company upon Listing. Accordingly, CCB International Capital Limited does not satisfy the independence criteria set out in Rule 3A.07(3) of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (collectively, the “Syndicate Members”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments our Company and/or persons and entities with relationships with our Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with our Company’s loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

UNDERWRITING

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Share, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Share), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Share at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to our Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject to reallocation and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 64,708,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the section entitled “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of 582,367,000 Offer Shares (subject to reallocation as mentioned below) at which 523,542,000 H Shares are to be issued by the Company and 58,825,000 H Shares are to be offered for sale by the Selling Shareholders after conversion from Domestic Shares, outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described below in the subsection headed “— The International Offering” below.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The Offer Shares will represent approximately 25.00% of the enlarged issued share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.80% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph entitled “Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the subsection headed “— The Hong Kong Public Offering — Reallocation and clawback” below.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 64,708,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 2.50% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed “— Conditions of the Hong Kong Public Offering” below.

Allocation

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 32,354,000 Offer Shares for pool A and 32,354,000 Offer Shares for pool B.

The Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less.

The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

STRUCTURE OF THE GLOBAL OFFERING

Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. In addition, multiple or suspected multiple applications and any application for more than 32,354,000 Offer Shares, being the maximum number of Offer Shares initially comprised in pool B in the Hong Kong Public Offering, are liable to be rejected.

Allocation of Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Reallocation and clawback

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. In the event of over-applications, the Joint Representatives, after consultation with us, shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of H Shares initially available under the Hong Kong Public Offering, then H Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 194,124,000 H Shares, representing approximately 30% of the H Shares initially available under the Global Offering.
- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the H Shares initially available under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the H Shares available under the Hong Kong Public Offering will be 258,830,000 H Shares, representing 40% of the H Shares initially available under the Global Offering.
- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the H Shares initially available for subscription under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the H Shares

STRUCTURE OF THE GLOBAL OFFERING

available under the Hong Kong Public Offering will be 323,538,000 H Shares, representing approximately 50% of the H Shares initially available under the Global Offering.

In each such case, the number of the H Shares allocated to the International Offering will be correspondingly reduced.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or the applicant (or any person for whose benefit he is making the application) has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$5.43 per H Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the subsection headed “— Pricing of the Global Offering” below, is less than the maximum price of HK\$5.43 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, please see the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above and the Over-allotment Option, the International Offering will consist of an aggregate of 582,367,000 Offer Shares to be offered by us and sold by the Selling Shareholders, representing approximately 90% of the Offer Shares under the Global Offering.

Pursuant to a letter issued by NSSF (Shebaojijinfā [2016] No. 156) on November 25, 2016, all of the net proceeds (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) from the sale of H Shares converted from Domestic Shares held by the Selling Shareholders in the Global Offering will be remitted through us to an account designated by NSSF in accordance with the relevant PRC laws and regulations.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “Pricing of the Global Offering” and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we and the Selling Shareholders are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

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Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot and the Selling Shareholders to sell up to 97,042,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.63% of our Company's enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building" is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, December 1, 2017 and in any event on or before Wednesday, December 6, 2017 by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$5.43 per H Share and is expected to be not less than HK\$4.46 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Representatives (for themselves and on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make any such

STRUCTURE OF THE GLOBAL OFFERING

reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.sitic.com.cn) (the contents of the website do not form a part of this prospectus) notices of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Upon issue of a notice in the reduction of the Offer Price, the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), will be fixed within such revised offer price range. **Applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.** Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application may or may not (depending on the information contained in the announcement) be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Representatives may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

The Offer Price for H Shares under the Global Offering is expected to be announced on Thursday, December 7, 2017.

The final offer price, the indications of interest in the Global Offering, the results of applications and the basis of allocation of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Thursday, December 7, 2017 in South China Morning Post, (in English) and Hong Kong Economic Times (in Chinese) and to be

STRUCTURE OF THE GLOBAL OFFERING

posted on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.sitic.com.cn (the contents of the website do not form a part of this prospectus).

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any persons acting for it (for itself and on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or supporting the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it to conduct any such stabilizing action. Such stabilizing action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of H Shares that may be over-allocated will not be greater than the number of H Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 97,042,000 additional H Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.80% of our Company's enlarged issued share capital on completion of the Global Offering.

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Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (iii) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares; (v) selling or agreeing to sell the H Shares in order to liquidate any position established as a result of the above-mentioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the H Shares.
- There is no certainty as to the extent to which, and the time or period for which, the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation and selling of any such long position in the open market by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date and is expected to expire on Sunday, December 31, 2017, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

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H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, December 8, 2017, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, December 8, 2017. Our H Shares will be traded in board lots of 1,000 H Shares each.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

STRUCTURE OF THE GLOBAL OFFERING

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Thursday, December 7, 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, December 8, 2017 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** services at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application (whether jointly or individually), except where you are a nominee and provide the required information in your application.

Our Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by a person under a power of attorney, the Joint Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** services for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, November 28, 2017 till 12:00 noon on Friday, December 1, 2017 from:

- (i) any of the following offices of the Hong Kong Underwriters:

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

Haitong International Securities Company Limited

8/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

CMB International Capital Limited

45th Floor, Champion Tower
3 Garden Road
Central, Hong Kong

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

ABCI Securities Company Limited

10/F Agricultural Bank of China
50 Connaught Road
Central
Hong Kong

Head & Shoulders Securities Limited

Room 2511, 25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Sinomax Securities Limited

Room 2705–06, 27/F, Tower One, Lippo Centre
89 Queensway
Hong Kong

Hao Tian International Securities Limited

10/F, 80 Gloucester Road
Wan Chai, Hong Kong

- (ii) any of the following branches of the receiving banks:

Wing Lung Bank Limited

<u>District</u>	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Kennedy Town Branch	28 Catchick Street
	North Point Branch	361 King's Road
	Aberdeen Branch	201 Aberdeen Main Road
Kowloon	Mongkok Branch	Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F, Sceneway Plaza, 8 Sceneway Road
	To Kwa Wan Branch	64 To Kwa Wan Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road
	Sheung Shui Branch	128 San Fung Avenue

HOW TO APPLY FOR HONG KONG OFFER SHARES

China Construction Bank (Asia) Corporation Limited

District	Branch	Address
Hong Kong Island	Central Branch	6 Des Voeux Road Central, Central
	Wanchai Hennessy Road Branch	139 Hennessy Road, Wanchai
	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay
Kowloon	Mongkok Nathan Road Branch	788 Nathan Road, Mongkok
	Kwun Tong Hoi Yuen Road Branch	56 Hoi Yuen Road, Kwun Tong
New Territories	Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan
	Tuen Mun Branch	Shop 9, G/F Tuen Mun Town Plaza 2, Tuen Mun
	Yuen Long Branch	68 Castle Peak Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, November 28, 2017 till 12:00 noon on Friday, December 1, 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker, who may have such Application Forms and this prospectus available.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Limited — SHANDONG INTERNATIONAL TRUST CO., LIMITED Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, November 28, 2017 — 9:00 a.m. to 5:00 p.m.
- Wednesday, November 29, 2017 — 9:00 a.m. to 5:00 p.m.
- Thursday, November 30, 2017 — 9:00 a.m. to 5:00 p.m.
- Friday, December 1, 2017 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, December 1, 2017, the last application day or such later time as described in the subsection headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Representatives (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our H Share Registrar, receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the H Share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in the subsection headed “— 2. Who can apply” above, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website at www.eipo.com.hk. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website at www.eipo.com.hk, you authorize the **White Form eIPO** service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 am on Tuesday, November 28, 2017 until 11:30 a.m. on Friday, December 1, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 1, 2017 or such later time under the “— Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Shandong International Trust Co., Ltd.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of Earth (HK).

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Representatives and our H Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;
- agree with our Company, for itself and for the benefit of each Shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree with our Company (for our Company itself and for the benefit of each Shareholder) that H Shares in our Company are freely transferable by their holders; and
- authorize our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders stipulated in the Articles of Association.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, November 28, 2017 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, November 29, 2017— 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, November 30, 2017 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, December 1, 2017 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m., Tuesday, November 28, 2017 until 12:00 noon, Friday, December 1, 2017 (24 hours daily, except on Friday, December 1, 2017 the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Friday, December 1, 2017, the last application day or such later time as described in the subsection headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the H Share Registrar, the receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Friday, December 1, 2017 or such later time under the subsection headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

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If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 1, 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, December 1, 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, December 7, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on our Company’s website at www.sitic.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.sitic.com.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than Thursday, December 7, 2017;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, December 7, 2017 to 12:00 midnight, Wednesday, December 13, 2017;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, December 7, 2017 to Sunday, December 10, 2017;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, December 7, 2017, to Saturday, December 9, 2017 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For further details see “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$5.43 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, December 7, 2017.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

HOW TO APPLY FOR HONG KONG OFFER SHARES

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, December 7, 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

H Share certificates will only become valid at 8:00 a.m., Friday, December 8, 2017 provided that the Global Offering has become unconditional and the right of termination described in “Underwriting” has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, December 7, 2017 or such other date as notified by us in the newspapers.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, December 7, 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before, Thursday, December 7, 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, December 7, 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the subsection headed "— 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Thursday, December 7, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 7, 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, December 7, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, December 7, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, December 7, 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Thursday, December 7, 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, December 7, 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 7, 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountant.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHANDONG INTERNATIONAL TRUST CO., LTD. AND BOCOM INTERNATIONAL (ASIA) LIMITED, CCB INTERNATIONAL CAPITAL LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-107, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017, the company statements of financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-107 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 November 2017 (the "Prospectus") in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company and of the Group as at 31 December 2014, 2015 and 2016 and 31 May 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of comprehensive income, changes in equity and cash flows for the five months ended 31 May 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period

Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 30 to the Historical Financial Information which contains information about the dividends paid by Shandong International Trust Co., Ltd. in respect of the Track Record Period.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
28 November 2017

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board ("IAASB") ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi thousand dollars except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December			Five months ended 31 May	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Fee and commission income	5	1,285,278	1,052,233	827,540	308,897	472,689
Interest income	6	383,556	460,615	455,226	142,093	183,871
Net changes in fair value on financial assets at fair value through profit or loss		47,981	55,527	(81,046)	(106,128)	(8,322)
Investment income	7	48,820	215,838	84,080	32,522	4,619
Other operating income	8	542	1,489	41,581	180	1,328
Total operating income		1,766,177	1,785,702	1,327,381	377,564	654,185
Interest expense	9	(124,866)	(106,441)	(88,097)	(5,445)	(51,607)
Staff costs (including directors and supervisors' emoluments)	10	(101,739)	(115,742)	(161,751)	(49,996)	(68,588)
Operating lease payments		(8,819)	(8,794)	(10,793)	(3,358)	(4,434)
Depreciation and amortisation		(2,852)	(3,265)	(5,684)	(1,512)	(3,047)
Change in net assets attributable to other beneficiaries of consolidated structured entities		1,993	(18)	1,316	54,455	3,276
Business tax and surcharges		(85,760)	(86,922)	(24,642)	(23,012)	(4,140)
Auditor's remuneration		(230)	(278)	(1,100)	-	-
Other operating expenses		(66,349)	(42,717)	(57,232)	(20,934)	(15,009)
Impairment losses on financial assets	12	(186,654)	(251,048)	(40,518)	(28,482)	(70,409)
Total operating expenses		(575,276)	(615,225)	(388,501)	(78,284)	(213,958)

	Note	Year ended 31 December			Five months ended 31 May	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Share of profit from investments accounted for using the equity method		94,605	175,336	138,248	54,910	60,471
Operating profit before income tax		<u>1,285,506</u>	<u>1,345,813</u>	<u>1,077,128</u>	<u>354,190</u>	<u>500,698</u>
Income tax expense	13	<u>(299,998)</u>	<u>(270,303)</u>	<u>(244,099)</u>	<u>(71,332)</u>	<u>(100,854)</u>
Net profit attributable to shareholders of the Company ..		<u>985,508</u>	<u>1,075,510</u>	<u>833,029</u>	<u>282,858</u>	<u>399,844</u>
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss:						
Fair value changes on available-for-sale financial assets		394,889	(261,000)	(97,902)	(166,889)	6,912
Share of other comprehensive income from investments accounted for using the equity method	29	13,130	10,843	(20,361)	(8,361)	(7,393)
Income tax relating to components of other comprehensive income ..		<u>(98,722)</u>	<u>65,249</u>	<u>24,475</u>	<u>41,723</u>	<u>(1,728)</u>
Total other comprehensive income, net of tax		<u>309,297</u>	<u>(184,908)</u>	<u>(93,788)</u>	<u>(133,527)</u>	<u>(2,209)</u>
Total comprehensive income attributable to shareholders of the Company		<u>1,294,805</u>	<u>890,602</u>	<u>739,241</u>	<u>149,331</u>	<u>397,635</u>
Basic and diluted earnings per share attributable to the shareholders of the Company (in RMB yuan)	14	<u>0.49</u>	<u>0.54</u>	<u>0.42</u>	<u>0.14</u>	<u>0.20</u>

Consolidated Statements of Financial Position

	Note	31 December			31 May
		2014	2015	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	27,469	27,827	124,516	121,860
Intangible assets		3,197	2,455	4,206	3,944
Investments accounted for using the equity method	16	695,211	1,028,125	1,566,102	1,637,644
Available-for-sale financial assets	17	1,135,963	1,350,088	866,201	872,116
Loans to customers	18	1,884,294	969,314	3,133,438	3,307,010
Investments classified as loans and receivables	19	93,100	29,400	43,443	104,987
Advance payments	20	165,426	231,774	2,788	7,524
Deferred income tax assets	21	–	59,133	18,485	35,935
Other non-current assets	22	71,000	247,840	277,111	326,093
Total non-current assets		4,075,660	3,945,956	6,036,290	6,417,113
Current assets					
Cash and bank balance	23	387,556	481,697	274,486	156,921
Financial assets at fair value through profit or loss	24	403,066	393,324	305,475	394,658
Financial assets purchased under agreements to resell	25	595,800	423,580	298,900	619,900
Loans to customers	18	1,231,003	2,107,118	914,797	1,434,851
Investments classified as loans and receivables	19	69,972	50,744	137,200	151,851
Trustee's remuneration receivable		769,375	671,119	203,089	403,946
Interest receivable		51,232	77,756	29,135	110,019
Other current assets	26	51,358	19,458	448,651	362,976
Total current assets		3,559,362	4,224,796	2,611,733	3,635,122
Total assets		7,635,022	8,170,752	8,648,023	10,052,235

	Note	31 December			31 May
		2014	2015	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000
Equity and liabilities					
Share capital	27	2,000,000	2,000,000	2,000,000	2,000,000
Capital reserve	27	616,289	616,289	616,289	616,289
Statutory surplus reserve	28	417,394	520,149	608,527	608,527
Statutory general reserve	28	361,313	590,460	638,423	638,423
Other reserves	29	329,919	145,011	51,223	49,014
Retained earnings		1,672,024	2,125,571	2,426,662	2,572,294
Total equity		<u>5,396,939</u>	<u>5,997,480</u>	<u>6,341,124</u>	<u>6,484,547</u>
Liabilities					
Non-current liabilities					
Salary and welfare payable		18,466	22,143	32,757	44,304
Net assets attributable to other beneficiaries of consolidated structured entities	31	916,140	315,780	1,361,366	1,946,409
Deferred income tax liabilities	21	37,614	—	—	—
Total non-current liabilities		<u>972,220</u>	<u>337,923</u>	<u>1,394,123</u>	<u>1,990,713</u>
Current liabilities					
Short-term borrowings	32	—	—	500,000	300,000
Salary and welfare payable		16,755	18,001	38,182	53,172
Net assets attributable to other beneficiaries of consolidated structured entities	31	838,068	1,213,402	179,894	790,980
Income tax payable		294,752	343,638	68,439	116,881
Dividend payable	30	—	—	—	254,212
Other current liabilities	33	116,288	260,308	126,261	61,730
Total current liabilities		<u>1,265,863</u>	<u>1,835,349</u>	<u>912,776</u>	<u>1,576,975</u>
Total liabilities		<u>2,238,083</u>	<u>2,173,272</u>	<u>2,306,899</u>	<u>3,567,688</u>
Total equity and liabilities		<u>7,635,022</u>	<u>8,170,752</u>	<u>8,648,023</u>	<u>10,052,235</u>

Statements of Financial Position of the Company

	Note	31 December			31 May
		2014	2015	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	27,469	27,827	124,516	121,860
Intangible assets		3,197	2,455	4,206	3,944
Investments accounted for using the equity method . .	16	676,211	974,125	845,602	896,763
Investments in consolidated structured entities	34	1,564,705	1,787,828	3,634,905	3,175,742
Available-for-sale financial assets	17	1,135,963	1,200,088	866,201	872,116
Investments classified as loans and receivables	19	93,100	29,400	43,443	104,987
Advance payments	20	165,426	231,774	2,788	7,524
Deferred income tax assets .	21	–	59,133	18,485	35,935
Other non-current assets . .	22	–	159,910	205,063	254,045
Total non-current assets . .		3,666,071	4,472,540	5,745,209	5,472,916
Current assets					
Cash and bank balance	23	287,209	338,976	162,077	79,853
Financial assets at fair value through profit or loss	24	282,759	244,502	73,984	125,464
Financial assets purchased under agreements to resell	25	595,800	423,580	298,900	619,900
Loans to customers	18	138,670	293,892	–	–
Investments classified as loans and receivables	19	69,972	50,744	137,200	151,851
Trustee's remuneration receivable		811,209	740,729	232,404	449,290
Interest receivable		4,173	3,389	8,752	15,699
Other current assets	26	17,675	17,971	443,743	352,507
Total current assets		2,207,467	2,113,783	1,357,060	1,794,564
Total assets		5,873,538	6,586,323	7,102,269	7,267,480

	Note	31 December			31 May
		2014	2015	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000
Equity and liabilities					
Share capital	27	2,000,000	2,000,000	2,000,000	2,000,000
Capital reserve	27	616,289	616,289	616,289	616,289
Statutory surplus reserve . . .	28	417,394	520,149	608,527	608,527
Statutory general reserve . . .	28	361,313	590,460	638,423	638,423
Other reserves	29	329,919	145,011	51,223	50,056
Retained earnings		1,664,747	2,070,324	2,422,168	2,523,886
Total equity		5,389,662	5,942,233	6,336,630	6,437,181
Liabilities					
Non-current liabilities					
Salary and welfare payable . . .		18,466	22,143	32,757	44,304
Deferred income tax liabilities	21	37,614	–	–	–
Total non-current liabilities		56,080	22,143	32,757	44,304
Current liabilities					
Short-term borrowings	32	–	–	500,000	300,000
Salary and welfare payable . . .		16,756	18,001	38,182	53,172
Income tax payable		294,752	343,638	68,439	116,881
Dividend Payable	30	–	–	–	254,212
Other current liabilities	33	116,288	260,308	126,261	61,730
Total current liabilities		427,796	621,947	732,882	785,995
Total liabilities		483,876	644,090	765,639	830,299
Total equity and liabilities		5,873,538	6,586,323	7,102,269	7,267,480

Consolidated Statements of Changes in Equity

	Share capital	Capital reserve	Statutory surplus reserve	Statutory general reserve	Other reserves	Retained earnings	Total
	RMB'000 (Note 27)	RMB'000 (Note 27)	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000	RMB'000
Balance at							
1 January 2014	1,280,000	22,240	318,504	231,508	20,622	1,802,932	3,675,806
Net profit for the year	-	-	-	-	-	985,508	985,508
Other comprehensive income for the year	-	-	-	-	309,297	-	309,297
Total comprehensive income	-	-	-	-	309,297	985,508	1,294,805
Capital invested by the shareholders	720,000	594,049	-	-	-	(186,667)	1,127,382
Appropriation to statutory surplus reserve	-	-	98,890	-	-	(98,890)	-
Appropriation to statutory general reserve	-	-	-	129,805	-	(129,805)	-
Dividends paid (Note 30)	-	-	-	-	-	(701,054)	(701,054)
Balance at							
31 December 2014	<u>2,000,000</u>	<u>616,289</u>	<u>417,394</u>	<u>361,313</u>	<u>329,919</u>	<u>1,672,024</u>	<u>5,396,939</u>
Balance at							
1 January 2015	2,000,000	616,289	417,394	361,313	329,919	1,672,024	5,396,939
Net profit for the year	-	-	-	-	-	1,075,510	1,075,510
Other comprehensive income for the year	-	-	-	-	(184,908)	-	(184,908)
Total comprehensive income	-	-	-	-	(184,908)	1,075,510	890,602
Appropriation to statutory surplus reserve	-	-	102,755	-	-	(102,755)	-
Appropriation to statutory general reserve	-	-	-	229,147	-	(229,147)	-
Dividends paid (Note 30)	-	-	-	-	-	(290,061)	(290,061)
Balance at							
31 December 2015	<u>2,000,000</u>	<u>616,289</u>	<u>520,149</u>	<u>590,460</u>	<u>145,011</u>	<u>2,125,571</u>	<u>5,997,480</u>

	Share capital	Capital reserve	Statutory surplus reserve	Statutory general reserve	Other reserves	Retained earnings	Total
	RMB'000 (Note 27)	RMB'000 (Note 27)	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000	RMB'000
Balance at							
1 January 2016	2,000,000	616,289	520,149	590,460	145,011	2,125,571	5,997,480
Net profit for the year	-	-	-	-	-	833,029	833,029
Other comprehensive income for the year	-	-	-	-	(93,788)	-	(93,788)
Total comprehensive income	-	-	-	-	(93,788)	833,029	739,241
Appropriation to statutory surplus reserve	-	-	88,378	-	-	(88,378)	-
Appropriation to statutory general reserve	-	-	-	47,963	-	(47,963)	-
Dividends paid (Note 30)	-	-	-	-	-	(395,597)	(395,597)
Balance at							
31 December 2016	<u>2,000,000</u>	<u>616,289</u>	<u>608,527</u>	<u>638,423</u>	<u>51,223</u>	<u>2,426,662</u>	<u>6,341,124</u>
Balance at							
1 January 2016	2,000,000	616,289	520,149	590,460	145,011	2,125,571	5,997,480
Net profit for the period	-	-	-	-	-	282,858	282,858
Other comprehensive income for the period	-	-	-	-	(133,527)	-	(133,527)
Total comprehensive income	-	-	-	-	(133,527)	282,858	149,331
Appropriation to statutory surplus reserve	-	-	-	-	-	-	-
Appropriation to statutory general reserve	-	-	-	-	-	-	-
Dividends paid (Note 30)	-	-	-	-	-	(395,597)	(395,597)
Balance at 31 May 2016 (unaudited)	<u>2,000,000</u>	<u>616,289</u>	<u>520,149</u>	<u>590,460</u>	<u>11,484</u>	<u>2,012,832</u>	<u>5,751,214</u>

	Share capital	Capital reserve	Statutory surplus reserve	Statutory general reserve	Other reserves	Retained earnings	Total
	RMB'000 (Note 27)	RMB'000 (Note 27)	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000	RMB'000
Balance at							
1 January 2017	2,000,000	616,289	608,527	638,423	51,223	2,426,662	6,341,124
Net profit for the period	-	-	-	-	-	399,844	399,844
Other comprehensive income for the period	-	-	-	-	(2,209)	-	(2,209)
Total comprehensive income	-	-	-	-	(2,209)	399,844	397,635
Appropriation to statutory surplus reserve	-	-	-	-	-	-	-
Appropriation to statutory general reserve	-	-	-	-	-	-	-
Dividends paid (Note 30)	-	-	-	-	-	(254,212)	(254,212)
Balance at 31 May 2017	2,000,000	616,289	608,527	638,423	49,014	2,572,294	6,484,547

Consolidated Statements of Cash Flows

	Note	Year ended 31 December			Five months ended 31 May	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities						
Profit before income tax		1,285,506	1,345,813	1,077,128	354,190	500,698
Adjustments:						
Depreciation and amortisation		2,852	3,265	5,684	1,512	3,047
Impairment losses on financial assets	12	186,654	251,048	40,518	28,482	70,409
Fair value changes in financial assets at fair value through profit or loss		(47,981)	(55,527)	81,046	106,128	8,322
Change in net assets attributable to other beneficiaries of consolidated structured entities		(1,993)	18	(1,316)	(54,455)	(3,276)
Investment income from investments accounted for using the equity method		(94,605)	(175,336)	(138,248)	(54,910)	(60,471)
Interest expense to China Trust Protection Fund Co., Ltd.		–	–	12,420	–	11,360
Investment income from disposal of construction project		–	–	(30,970)	–	–
Investment income from available-for-sale investments		–	–	(66,715)	–	(2,621)
Subtotal		<u>1,330,433</u>	<u>1,369,281</u>	<u>979,547</u>	<u>380,947</u>	<u>527,468</u>

Note	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net change in operating assets and operating liabilities:					
(Increase)/Decrease in financial assets at fair value through profit or loss	(82,577)	9,742	6,803	(259,162)	(97,504)
Increase in loans to customers	(574,755)	(196,381)	(1,010,271)	(7,511)	(762,480)
(Increase)/Decrease in investments classified as loans and receivables	(88,800)	84,620	(102,550)	1,780	(77,750)
(Increase)/Decrease in financial assets purchased under agreements to resell	(389,100)	172,220	124,680	184,469	(321,000)
Net decrease/(increase) in other operating assets	847,165	(45,880)	484,386	251,759	(249,783)
Net increase/(decrease) in other operating liabilities	131,531	(162,009)	(90,297)	(379,127)	1,158,266
Cash from operating activities before tax	<u>1,173,897</u>	<u>1,231,593</u>	<u>392,298</u>	<u>173,155</u>	<u>177,217</u>
Income tax paid	<u>(237,989)</u>	<u>(252,910)</u>	<u>(454,175)</u>	<u>(223,462)</u>	<u>(71,590)</u>
Net cash generated from/(used in) operating activities	<u>935,908</u>	<u>978,683</u>	<u>(61,877)</u>	<u>(50,307)</u>	<u>105,627</u>

Note	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from investing activities:					
Dividends received from investments accounted for using the equity method	4,851	42,368	130,344	–	–
Proceeds from sales of available-for-sale financial assets	36,154	212,297	555,594	482,628	19,117
Dividends received from available-for-sale investments	736	458	28,902	–	–
Proceeds from disposal of investments accounted for using the equity method	–	5,000	4,000	–	–
Purchase of property and equipment, intangible assets and other long-term assets	(12,440)	(70,033)	(99,260)	(386)	(129)
Purchase of available-for-sale financial assets	(197,410)	(589,957)	(190,840)	(74,755)	(15,499)
Purchase of investments accounted for using the equity method	(12,500)	(195,000)	(666,500)	(18,000)	(18,500)
Net cash (used in)/generated from investing activities	(180,609)	(594,867)	(237,760)	389,487	(15,011)

	Note	Year ended 31 December			Five months ended 31 May	
		2014	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from financing activities:						
Short-term borrowings from China Trust Protection Fund Co., Ltd.		–	–	500,000	–	–
Repayment of short-term borrowings from China Trust Protection Fund Co., Ltd.		–	–	–	–	(200,000)
Short-term borrowings from inter-bank market		–	–	100,000	–	–
Repayment of short-term borrowings from inter-bank market		–	–	(100,000)	–	–
Interest expense paid to China Trust Protection Fund Co., Ltd.		–	–	(12,350)	–	(8,025)
Interest expense paid for inter-bank borrowings		–	–	(70)	–	–
Dividends paid to shareholders	30	(701,054)	(290,061)	(395,597)	(395,597)	–
Net cash (used in)/generated from financing activities		<u>(701,054)</u>	<u>(290,061)</u>	<u>91,983</u>	<u>(395,597)</u>	<u>(208,025)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>23</u>	<u>386</u>	<u>443</u>	<u>90</u>	<u>(156)</u>
Net increase/(decrease) in cash and cash equivalents		<u>54,268</u>	<u>94,141</u>	<u>(207,211)</u>	<u>(56,327)</u>	<u>(117,565)</u>
Cash and cash equivalents at beginning of the year/period		<u>333,288</u>	<u>387,556</u>	<u>481,697</u>	<u>481,697</u>	<u>274,486</u>
Cash and cash equivalents at end of the year/period	23	<u><u>387,556</u></u>	<u><u>481,697</u></u>	<u><u>274,486</u></u>	<u><u>425,370</u></u>	<u><u>156,921</u></u>
Net cash flows from operating activities including:						
Interest received		<u>387,822</u>	<u>434,091</u>	<u>503,847</u>	<u>150,751</u>	<u>102,987</u>
Interest paid		<u>(212,803)</u>	<u>(150,583)</u>	<u>(88,646)</u>	<u>(76,844)</u>	<u>(122,561)</u>

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL

Shandong International Trust Co., Ltd. ("Shandong Trust" or "the Company") is a non-bank financial institution incorporated in Shandong Province, the People's Republic of China (the "PRC") on 10 March 1987 with the approval from People's Bank of China ("PBOC") and Shandong Provincial Government. In August 2002, the Company was transformed from a wholly state owned company to a limited liability company. In July 2015, the Company was further transformed from a limited liability company to a joint stock limited company with registered and issued share capital of Renminbi ("RMB") 2,000,000,000.00 (RMB1 each per registered and issued share). Shandong Luxin Investment Holdings Group Co., Ltd ("Lucion Group") is the parent company of Shandong Trust which directly held 63.02% of the Company's issued shares as of 31 May 2017. Through two subsidiaries namely Luxin Venture Capital Group Co., Ltd. ("Luxin Venture Capital") and Shandong High-Tech Venture Capital Co., Ltd. ("Shandong High-Tech Venture Capital"), Lucion Group further held 6.25% of the Company's issued shares as of 31 May 2017.

The Company operates under the financial service certificate No. 00606003 from the China Banking Regulatory Commission ("the CBRC") issued in August 2015. The principal activities of the Company as approved by the CBRC include trust business and proprietary business. Trust business is the Company's core business. As the trustee, the Company accepts entrustment of funds and property from its trustor clients and manages such entrusted funds and property to satisfy its trustor clients' 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.

The information of the Company's subsidiaries which are structured entities are provided in Note 34 to the Financial Information. The Company and its subsidiaries are collectively referred to as "the Group".

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Information are set out below. These policies have been consistently applied to the relevant years presented unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Group has been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss which are carried at fair value.

The preparation of Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

The Group applied all relevant IFRSs effective on 1 January 2017 consistently in the preparation of the Financial Information.

Standards, amendments and interpretations that have been issued but not yet effective and not been early adopted by the Group as of the Track Record Period are as follows:

		Effective for annual periods beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Amendments to IAS 40	Transfers of investment property	1 January 2018
Amendments to IFRS 4	Insurance contracts regarding the implementation	1 January 2018
Amendments to IFRS 2	Share based payments, on clarifying how to account for certain types of share-based payment transactions	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an “earnings processes” to an “asset-liability” approach based on transfer of control. IFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. Given the nature of the Group’s trust business, adoption of IFRS 15 will not have material effect on majority of the Group’s revenue recognition, in particular, the nature, amount, timing and uncertainty of revenue and cash flows arising from trust contracts will remain unchanged under IFRS 15 comparing to current accounting policies adopted by the Group.

IFRS 9

IFRS 9, published in July 2014 and effective for annual periods beginning on or after 1 January 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The principle and guidance on recognition and de-recognition of financial instruments in IAS 39 remains unchanged.

IFRS 9 will change the way the Group classifies and measures its financial assets. IAS 39 measurement categories ‘financial assets at fair value through profit or loss’, ‘held-to-maturity investments’, ‘loans and receivables’ and ‘available-for-sale financial assets’ will be replaced by three main categories in IFRS 9, which are ‘amortised cost’, ‘fair value through other comprehensive income’ and ‘fair value through profit or loss’. The approach for classifying financial assets will also change. Under IAS 39 the characteristics of financial assets are analysed for any embedded derivatives and whether those have to be separated from the host contract (bifurcation of hybrid instruments). IFRS 9 uses a different approach that does not involve the bifurcation of financial

assets. Instead, financial assets are classified in their entirety into a measurement category. This classification of financial assets under IFRS 9 will require the Company to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement.

Equity instruments currently classified as available-for-sale financial assets or financial assets at fair value through profit or loss under IAS 39 will be subject to an irrevocable election to present their changes in fair value in other comprehensive income, provided that such financial assets are not held for trading. Such financial assets will be reclassified as fair value through other comprehensive income under IFRS 9, and there will be no recycling of amounts from other comprehensive income to profit or loss on sale of such financial assets, hence there will be no investment income from such financial assets which could be recognised under IAS 39.

For financial assets that will be classified as 'amortised cost' or 'fair value through other comprehensive income', the Company will be required to apply an expected credit loss impairment model that will apply to both those measurement categories as well as other exposures to credit risk such as loan commitments and financial guarantees. This impairment model will replace the different impairment models in IAS 39 (the incurred loss impairment model and the impairment model for available-for-sale financial assets) as well as the requirements in IAS 37 that related to some types of credit risk exposures (such as loan commitments and financial guarantees). The main differences between the new expected credit loss impairment model compared to the incurred loss model in IAS 39 are that the expected credit loss model uses more forward-looking information and that it does not involve the existence of an objective evidence of impairment until which credit losses remain unrecognised. Consequently, financial assets in the scope of the new impairment model will require a loss allowance to be recognised throughout their lives and the relative change of credit risk since initial recognition of the financial asset drives whether that loss allowance is equal to 12-month expected credit losses or lifetime expected credit losses. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis. 12-month expected credit losses are a subset of the lifetime expected credit losses and represent the losses expected to arise from default events within the next 12 months after the reporting date.

Given IFRS 9 will change the way the Group classifies and measures its financial assets, adoption of IFRS 9 on 1 January 2018 would significantly affect the Group's operating results and financial position. In particular, calculation of impairment of financial instruments on an expected credit loss basis may result in an increase in impairment allowance. The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9. The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on the Group's operating results and financial position have not been quantified.

IFRS 16

Under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet), IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The standard will affect primarily the accounting for Group's operating leases. As at 31 May 2017, the Group has non-cancellable operating lease commitment of RMB1,160 thousand yuan, see note 35(b). The new standard will impact both the balances, but the impact will not be material.

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Amendments to IFRSs: Annual Improvements to IFRSs 2014-2016 Cycle

These amendments impact 2 standards: IFRS 1, ‘First-time adoption of IFRS’, regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective on January 1, 2018. IAS 28, ‘Investments in associates and joint ventures’ regarding measuring an associate or joint venture at fair value.

Amendments to IAS 40

These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Amendments to IFRS 4

These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard — IAS 39.

Amendments to IFRS 2

This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

IFRIC 22

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

IFRIC 23

It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

Except the above mentioned impact of IFRS 9, the Group expects adoption of the above new IFRS, amendments to IFRS and IFRIC interpretations issued but not yet effective will not have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Financial year

The accounting year starts on 1 January and ends on 31 December.

2.3 Functional currency

The functional currency of the Company and its subsidiaries, as determined by the primary economic environment in which they operate, is RMB which is also the reporting currency of the Group.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Group and all its subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.5 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's statement of financial position, investment in subsidiaries is accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

2.6 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit from investments accounted for using equity method' in profit or loss.

2.7 Structured entities

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group determines whether it is an agent or a principal in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principal if it acts primarily for itself, and therefore controls the structured entity.

Structured entities with which the Group has involvement include trust schemes, investment funds and asset management products. The Company establishes trust schemes, by virtue of which it earns fee income by providing trustee and management services to the trustors (also refer to investors) of the trust schemes. The trust schemes mainly include financing trust schemes and investment trust schemes. The Company may also make direct investments in the trust schemes it establishes and manages.

For structured entities, the Group assesses whether they should be consolidated based on the contractual terms as to whether the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated structured entities of the Group are disclosed in Note 34(b). Third-party beneficiaries' interests in the consolidated structured entities with a limited life or puttable instruments issued and are classified as liabilities in the Group's consolidated statement of financial position, and net profits or losses attributable to third-party beneficiaries are recorded in "interest expense" for consolidated financing trust schemes or "change in net assets attributable to other beneficiaries of the consolidated structured entities" for consolidated investment trust schemes.

2.8 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

2.9 Fee and commission income

The Group earns fee and commission income from trust and other businesses it provides to its customers, the majority of which relates to the trust services that are provided over a period of time. For such service, fee and commission income are recognised over that period. For other services, fee and commission income are recognised when the provision of service is completed.

2.10 Dividend income

Dividends are recognised when the right to receive payment is established.

2.11 Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other operating income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the period in which the expenses are recognised.

2.12 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, and post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labour union fees and staff education expenses.

(b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plans are recognised in profit or loss for the period in which the related payment obligation is incurred.

2.13 Current and deferred income taxes

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

2.14 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognised in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as, deposits with banks with original tenors less than 3 months.

2.16 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2.16.1 Financial assets

The Group's financial assets are classified into four categories — financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

The terms set out in the trust contracts of the Company's consolidated securities investment trusts require the Company to evaluate the information about their underlying financial assets and liabilities on a fair value basis together with other related financial information.

The Company has classified, at inception, all of the financial assets of the Company's consolidated securities investment trusts at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in the profit or loss in the period in which they arise.

(b) Held-to-maturity financial investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method.

Financial assets classified as loans and receivables primarily include loans to customers, investments classified as loans and receivables and financial assets purchased under agreements to resell.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. All gains and losses from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the other reserves in equity, until the financial asset is disposed or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the other reserves in equity is reclassified to the profit or loss.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive such payments is established.

(e) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets (other than those measured at fair value through profit or loss) is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the financial assets (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment. The Group separately checks all available-for-sale equity investments at the end of each reporting period. If a decline in the fair value of an equity investment is below its initial cost by 30% or more, or fair value is below cost for one year or longer at the end of the reporting period, it indicates that such an equity investment is impaired.

(i) Financial assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment.

For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the debtor's credit rating, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial assets classified as available-for-sale

When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in other comprehensive income and accumulated in the other reserve in equity, and there is objective evidence that asset is impaired, the cumulative losses previously recognised in other comprehensive income are reclassified to the profit or loss in the period in which the impairment takes place.

An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. Impairment losses recognised for equity instruments classified as available-for-sale are not reversed through profit or loss. The fair value of the equity instruments increases in a subsequent period after an impairment loss has been recognised is recognised directly in other comprehensive income.

2.16.2 Financial liabilities

The Group's financial liabilities are measured at amortised cost, using the effective interest method.

2.16.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.16.4 De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset have been transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred

asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.16.5 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to offset the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.16.6 Resale agreements

Consideration paid for financial assets purchased under agreements to resell are recorded as such in the consolidated statement of financial position.

The difference between purchase and resale price is recognised as interest income in profit or loss over the term of the agreements using the effective interest method.

2.17 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values rates and annual depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	20–40 years	3%	2.43%–4.85%
Motor vehicles	8 years	3%	12.13%
Equipment	3–5 years	3%	19.40%–32.33%
Furniture and others	5–10 years	3%	9.70%–19.40%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.21.

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

2.18 Land use rights

Land use rights are initially recognised at costs and amortised using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.21.

2.19 Intangible assets

The intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.21.

Intangible assets of the Group mainly include computer software which is amortised over 5 years.

2.20 Foreclosed assets

When the Group's obligor uses foreclosed asset to compensate the principal and interest of loan, foreclosed asset is initially recognised at fair value.

Impairment losses on foreclosed assets are accounted for in accordance with the accounting policies as set out in Note 2.21.

2.21 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

2.22 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.23 Leases

Leases in which substantially all the risk and rewards of the ownership are transferred to the lessee are classified as financing lease. Other leases are operating lease.

Rental payments of operating lease are recognised in profit or loss according to the method of straight line during the lease term.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.25 Segment reporting

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group has determined the management team represented by the general manager as its chief operating decision maker.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

(a) Impairment allowances for loans to customers

The Group regularly reviews its loan portfolios to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio of loans. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans to customers are collectively assessed for impairment, Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

(b) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, and discounted cash flow analysis. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates, share price and index, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(c) Determination of control over trust schemes

Where the Company acts as trustee and asset manager of trust schemes it established, the Company makes judgement on whether it is the principal or an agent to assess whether the Company controls the trust schemes and should consolidate them. When performing this assessment, the Company considers several factors including, among other things, the scope of its decision-making authority over the trust schemes, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the trustee and management services, the Company's exposure to variability of returns from other interests that it holds in the trust schemes, for example direct investments. The Group performs re-assessment when the factors change.

(d) Income taxes

The Group is subject to income taxes and significant judgement is required in determining provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Taxation matters are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

4 TAXATION

The main categories and rates of taxes applicable to the Company are set out below:

Type of tax	Tax rate	Tax base
Enterprise income tax	25%	Taxable income
Value added tax ("VAT")	6%	Tax payable is calculated using the taxable income multiplied by the applicable tax rate ("output VAT") less deductible input VAT of current period
Business tax	5%	Taxable turnover amount
Urban maintenance and construction tax	7%	Value added tax or business tax
Educational surcharges	3%	Value added tax or business tax

Pursuant to the Circular on the Pilot Plan for Levying VAT in Place of Business Tax (Caishui No. 36, 2016) issued by the Ministry of Finance on 23 March 2016, VAT is levied in financial services industry in mainland China effective from 1 May 2016 and replaced business tax. VAT payable is calculated monthly by deducting input VAT from output VAT. The output VAT is calculated by multiplying taxable income by applicable tax rate. The input VAT is determined based on VAT invoices obtained from suppliers. Fee and commission income is presented net of output VAT from 1 May 2016.

5 FEE AND COMMISSION INCOME

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income					
Trustee's remuneration	1,271,351	1,045,234	825,053	308,202	469,387
Others	13,927	6,999	2,487	695	3,302
Total	1,285,278	1,052,233	827,540	308,897	472,689

6 INTEREST INCOME

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income from					
Cash and bank balance	37,222	4,138	4,735	1,040	656
Loans to customers	314,797	416,550	413,971	131,777	163,235
Investments classified as loans and receivables	5,200	21,313	16,809	2,455	8,620
Financial assets purchased under agreements to resell	26,337	18,614	14,602	6,821	10,313
Trust Industry Protection Fund (i)	–	–	5,109	–	1,047
Total	383,556	460,615	455,226	142,093	183,871
Including: Interest income from impaired financial assets	2,303	46,155	94,511	1,800	7,634

Note:

- (i) The amount represents the interest received in respect of contribution to the Trust Industry Protection Fund in connection with financing trust schemes.

7 INVESTMENT INCOME

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends income from:					
Available-for-sale equity investments	736	458	28,902	22,778	–
Net realised gains/(losses) from:					
Financial assets at fair value through profit or loss	34,394	203,770	19,736	4,877	1,998
Available-for-sale financial assets	13,690	11,610	37,814	4,867	2,621
Disposal of investments accounted for using the equity method	–	–	(2,372)	–	–
Total	48,820	215,838	84,080	32,522	4,619

8 OTHER OPERATING INCOME

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Disposal of a construction project to a government related entity ("Government Related Entity A") (Note 20)	–	–	30,970	–	–
Government grants (i)	500	500	2,000	–	–
Foreign exchange gain	42	365	416	180	(156)
Other miscellaneous income	–	624	8,195	–	1,484
Total	542	1,489	41,581	180	1,328

Note:

- (i) Government grants for the years ended 31 December 2014, 2015 and 2016 mainly represent the amounts received from Shandong Provincial Finance Bureau for rewarding the Group's contribution to the development of local economy.

9 INTEREST EXPENSE

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest accrued on borrowings from China Trust Protection Fund Co., Ltd.	–	–	12,350	–	11,360
Interest accrued on inter-bank borrowings	–	–	70	–	–
Third-party beneficiaries' interests (i)	124,866	106,441	75,677	5,445	40,247
Total	124,866	106,441	88,097	5,445	51,607

Note:

- (i) These interests represent expected returns attributable to third-party beneficiaries of the consolidated financing trust schemes, after offsetting the impairment losses attributable to third-party beneficiaries. Third-party beneficiaries' interests in the consolidated trust schemes have been accounted for as "net assets attributable to other beneficiaries of consolidated structured entities" in the consolidated statements of financial position (Note 31).

10 STAFF COSTS (INCLUDING DIRECTORS AND SUPERVISORS' EMOLUMENTS)

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and bonuses	83,950	96,150	137,278	45,027	60,322
Pension costs (defined contribution plans)	5,280	6,566	8,081	1,732	1,997
Housing funds	2,481	3,149	3,684	1,417	1,660
Labour union fee and staff education expenses	1,924	2,056	2,590	257	2,369
Other social security and benefit costs	8,104	7,821	10,118	1,563	2,240
Total	101,739	115,742	161,751	49,996	68,588

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Name	Year ended 31 December 2014				
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Director					
Wang Yingli (i)	–	480	1,671	103	2,254
Non-Executive Directors					
Xiang Kaijin	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Li Guohong	–	–	–	–	–
Zhang Shouhe	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Independent Non-Executive Directors					
Li Xiangqi	50	–	–	–	50
Huang Kehua (ii)	–	–	–	–	–
Supervisors					
Yu Hui	–	366	370	67	803
Zhang Ruming	–	371	323	67	761
Tian Zhiguo	–	1,454	2,017	67	3,538
Xu Linhui (iii)	–	–	–	–	–
Zhang Feng	–	–	–	–	–
Chen Baoqing	–	–	–	–	–
Yang Gongmin	–	–	–	–	–
Chen Yong (iv)	–	–	–	–	–
Ding Jian	–	–	–	–	–
Total	50	2,671	4,381	304	7,406

Notes:

- (i) Wang Yingli was elected executive director effective in July 2014.
(ii) Huang Kehua ceased to be independent non-executive director effective in September 2014.
(iii) Xu Linhui was elected supervisor effective in September 2014.
(iv) Chen Yong was elected supervisor effective in September 2014.

Year ended 31 December 2015

Name	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Director					
Wang Yingli	–	546	2,010	121	2,677
Non-Executive Directors					
Xiang Kaijin	–	–	–	–	–
Wang Liang (i)	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Chen Daojiang (ii)	–	–	–	–	–
Li Guohong (iii)	–	–	–	–	–
Zhang Shouhe	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Independent Non-Executive Directors					
Zhao Changyi (iv)	–	–	–	–	–
Yen Huai-chiang (v)	–	–	–	–	–
Ding Huiping (vi)	–	–	–	–	–
Supervisors					
Yu Hui (vii)	–	247	218	56	521
Zhang Ruming (viii)	–	228	196	56	480
Wu Chen (viii)	–	–	–	–	–
Tian Zhiguo	–	1,167	791	74	2,032
Li Aiping (ix)	–	280	196	47	523
Zuo Hui (ix)	–	207	196	47	450
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Ding Jian	–	–	–	–	–
Xu Linhui	–	–	–	–	–
Chen Baoqing	–	–	–	–	–
Total	–	2,675	3,607	401	6,683

Notes:

- (i) Wang Liang was elected non-executive director effective in May 2015.
(ii) Chen Daojiang was elected non-executive director effective in July 2015.
(iii) Li Guohong ceased to be non-executive director effective in May 2015.
(iv) Zhao Changyi was elected as independent non-executive director effective in July 2015.
(v) Yen Huai-chiang was elected as independent non-executive director effective in November 2015.
(vi) Ding Huiping was elected as independent non-executive director effective in September 2015.
(vii) Yu Hui and Zhang Ruming ceased to be supervisors effective in April 2015.
(viii) Wu Chen was elected as supervisor effective in May 2015.
(ix) Li Aiping and Zuo Hui were elected to be supervisors effective in April 2015.

Year ended 31 December 2016

Name	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Wang Yingli (i)	–	–	974	–	974
Wan Zhong (ii)	–	311	636	23	970
Non-Executive Directors					
Wang Liang	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Chen Daojiang (iii)	–	–	–	–	–
Zhang Shouhe (iii)	–	–	–	–	–
Wang Yuepu (iii)	–	–	–	–	–
Independent Non-Executive Directors					
Zhao Changyi (iv)	50	–	–	–	50
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Meng Rujing (v)	25	–	–	–	25
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	940	1,047	95	2,082
Li Aiping	–	432	432	80	944
Zuo Hui	–	433	610	85	1,128
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Ding Jian	–	–	–	–	–
Xu Linhui (vi)	–	–	–	–	–
Hou Zhenkai (vii)	–	–	–	–	–
Chen Baoqing (vii)	–	–	–	–	–
Wang Yuepu (viii)	–	–	–	–	–
Total	275	2,116	3,699	283	6,373

Notes:

- (i) Since the year 2016, Wang Yingli's emoluments started to be paid by Lucion Group. Discretionary bonuses paid in year ended 31 December 2016 by the Company represents deferred discretionary bonuses of previous years.
- (ii) Wan Zhong was elected executive director effective in July 2016.
- (iii) Chen Daojiang, Zhang Shouhe and Wang Yuepu ceased to be non-executive directors effective in July 2016.
- (iv) Zhao Changyi ceased to be independent non-executive director in July 2016.
- (v) Meng Rujing was elected independent non-executive director effective in September 2016.
- (vi) Xu Linhui ceased to be supervisor effective in May 2016.
- (vii) Hou Zhenkai was elected supervisor effective in May 2016.
- (viii) Chen Baoqing ceased to be supervisor effective in July 2016.
- (ix) Wang Yuepu ceased to be non-executive director and elected supervisor effective in July 2016.

Five months ended 31 May 2016 (unaudited)					
Name	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Wang Yingli	–	–	–	–	–
Non-Executive Directors					
Wang Liang	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Chen Daojiang	–	–	–	–	–
Zhang Shouhe	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Independent Non-Executive Directors					
Zhao Changyi	100	–	–	–	100
Yen Huai-chiang	100	–	–	–	100
Ding Huiping	100	–	–	–	100
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	314	153	17	484
Li Aiping	–	177	152	17	346
Zuo Hui	–	177	152	17	346
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Ding Jian	–	–	–	–	–
Xu Linhui (i)	–	–	–	–	–
Hou Zhenkai (ii)	–	–	–	–	–
Chen Baoqing	–	–	–	–	–
Total	300	668	457	51	1,476

Notes:

- (i) Xu Linhui ceased to be supervisor effective in May 2016.
(ii) Hou Zhenkai was elected supervisor effective in May 2016.

Name	Five months ended 31 May 2017				
	Fees	Salaries and allowances and benefits	Discretionary bonuses	Contribution to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Wang Yingli	–	–	40	–	40
Wan Zhong	–	225	723	19	967
Non-Executive Directors					
Wang Liang	–	–	–	–	–
Jin Tongshui	–	–	–	–	–
Independent Non-Executive Directors					
Yen Huai-chiang	42	–	–	–	42
Ding Huiping	42	–	–	–	42
Meng Rujing	42	–	–	–	42
Supervisors					
Wu Chen	–	–	–	–	–
Tian Zhiguo	–	654	694	19	1,367
Li Aiping	–	149	262	19	430
Zuo Hui	–	149	262	19	430
Yang Gongmin	–	–	–	–	–
Chen Yong	–	–	–	–	–
Ding Jian	–	–	–	–	–
Hou Zhenkai	–	–	–	–	–
Wang Yuepu	–	–	–	–	–
Total	126	1,177	1,981	76	3,360

(b) Five highest paid individuals

For each of the years/periods ended 31 December 2014, 2015 and 2016 and five months ended 31 May 2016 and 2017, the five highest paid individuals in the Group include no director and 1 supervisor, 1 director and no supervisor, no director and no supervisor, no director and no supervisor and no director and no supervisor respectively, whose emoluments have been disclosed above.

The rest of the five highest paid individuals for the Track Record Period are as follows:

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and allowances and benefits	10,067	14,494	11,794	4,242	6,588
Discretionary bonuses	12,800	25,618	30,761	7,142	11,174
Contribution to pension schemes	372	405	493	75	95
	23,239	40,517	43,048	11,459	17,857

The emoluments fell within the following bands:

	Number of Individuals				
	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB500,001 – RMB1,000,000	–	–	–	2	3
RMB1,000,001 – RMB1,500,000	–	–	–	–	–
RMB1,500,001 – RMB2,000,000	–	–	–	1	1
RMB2,000,001 – RMB2,500,000	–	–	–	–	–
RMB2,500,001 – RMB3,000,000	–	–	–	1	1
RMB3,000,001 – RMB3,500,000	1	–	–	–	–
RMB3,500,001 – RMB4,000,000	–	–	–	–	–
RMB4,000,001 – RMB4,500,000	1	–	–	–	–
RMB4,500,001 – RMB5,000,000	–	–	–	–	–
RMB5,000,001 – RMB5,500,000	–	1	–	1	–
RMB5,500,001 – RMB6,000,000	1	–	2	–	–
Above RMB6,000,000	1	3	3	–	–
Total	4	4	5	5	5

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12 IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net charge/(reversal) of impairment allowance on loans to customers					
– Collectively assessed					
<i>(Note 18(c))</i>	4,960	(8,048)	14,380	2,026	25,450
– Individually assessed					
<i>(Note 18(c))</i>	170,306	243,294	24,087	24,893	43,404
Net charge/(reversal) of impairment allowance on investments classified as loans and receivables					
– Collectively assessed					
<i>(Note 19(b))</i>	1,776	(1,692)	2,051	(36)	1,555
Impairment losses on available-for-sale equity instrument <i>(Note 17)</i>	9,612	17,494	–	1,599	–
Total	186,654	251,048	40,518	28,482	70,409

13 INCOME TAX EXPENSE

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current income tax	325,098	301,801	178,976	72,043	120,032
Deferred income tax (<i>Note 21</i>)	(25,100)	(31,498)	65,123	(711)	(19,178)
Total	299,998	270,303	244,099	71,332	100,854

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

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

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	1,285,506	1,345,813	1,077,128	354,190	500,698
Tax calculated at a tax rate of 25%	321,376	336,454	269,282	88,548	125,174
Tax effect arising from income not subject to tax (<i>i</i>)	(24,981)	(78,725)	(36,671)	(20,254)	(32,263)
Tax effect of expenses that are not deductible for tax purposes (<i>ii</i>)	3,603	12,574	11,488	3,038	7,943
Income tax expense	299,998	270,303	244,099	71,332	100,854

Notes:

- (i) The income not subject to tax mainly represents the share of profit from investments accounted for using equity method.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which exceed the tax deduction limits pursuant to the relevant PRC tax rules and regulations.

14 BASIC AND DILUTED EARNINGS PER SHARE

In July 2015, the Company was transformed from a limited liability company to a joint stock limited company with 2,000,000,000 shares issued at a par value of RMB1 yuan each (Note 27). For the purpose of calculation of earnings per share during the Track Record Period, the shares issued pursuant to the transformation were treated as if they had been issued at the beginning of year 2014.

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the years/periods.

For the years ended 31 December 2014, 2015 and 2016, and the five months ended 31 May 2016 and 2017, the basic and diluted earnings per share are calculated on the assumption that the above mentioned 2,000,000,000 shares were in issue throughout the Track Record Period.

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016 (unaudited)	2017
Net profit attributable to shareholders of the Company (in RMB thousand)	985,508	1,075,510	833,029	282,858	399,844
Weighted average number of ordinary shares in issue (in thousand shares)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Basic earnings per share (in RMB yuan)	0.49	0.54	0.42	0.14	0.20

(b) Diluted earnings per share

For the years ended 31 December 2014, 2015 and 2016, and the five months ended 31 May 2016 and 2017, there were no potential diluted ordinary shares and therefore the diluted earnings per share were the same as the basic earnings per share.

15 PROPERTY, PLANT AND EQUIPMENT

The Group and the Company

	Buildings	Motor vehicles	Equipment	Furniture and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1 January 2014	37,582	5,874	6,876	356	50,688
Additions	–	–	452	18	470
Disposals	–	–	–	–	–
At 31 December 2014	<u>37,582</u>	<u>5,874</u>	<u>7,328</u>	<u>374</u>	<u>51,158</u>
Accumulated depreciation					
At 1 January 2014	(15,182)	(3,486)	(2,469)	(163)	(21,300)
Charge for the year	(911)	(417)	(993)	(68)	(2,389)
Disposals	–	–	–	–	–
At 31 December 2014	<u>(16,093)</u>	<u>(3,903)</u>	<u>(3,462)</u>	<u>(231)</u>	<u>(23,689)</u>
Net book value					
At 31 December 2014	<u>21,489</u>	<u>1,971</u>	<u>3,866</u>	<u>143</u>	<u>27,469</u>
Cost					
At 1 January 2015	37,582	5,874	7,328	374	51,158
Additions	–	–	2,395	438	2,833
Disposals	–	–	–	–	–
At 31 December 2015	<u>37,582</u>	<u>5,874</u>	<u>9,723</u>	<u>812</u>	<u>53,991</u>
Accumulated depreciation					
At 1 January 2015	(16,093)	(3,903)	(3,462)	(231)	(23,689)
Charge for the year	(912)	(411)	(1,054)	(98)	(2,475)
Disposals	–	–	–	–	–
At 31 December 2015	<u>(17,005)</u>	<u>(4,314)</u>	<u>(4,516)</u>	<u>(329)</u>	<u>(26,164)</u>
Net book value					
At 31 December 2015	<u>20,577</u>	<u>1,560</u>	<u>5,207</u>	<u>483</u>	<u>27,827</u>
Cost					
At 1 January 2016	37,582	5,874	9,723	812	53,991
Additions	100,792	–	699	40	101,531
Disposals	–	(2,027)	(1,457)	–	(3,484)
At 31 December 2016	<u>138,374</u>	<u>3,847</u>	<u>8,965</u>	<u>852</u>	<u>152,038</u>
Accumulated depreciation					
At 1 January 2016	(17,005)	(4,314)	(4,516)	(329)	(26,164)
Charge for the year	(2,119)	(380)	(2,125)	(114)	(4,738)
Disposals	–	1,967	1,413	–	3,380
At 31 December 2016	<u>(19,124)</u>	<u>(2,727)</u>	<u>(5,228)</u>	<u>(443)</u>	<u>(27,522)</u>
Net book value					
At 31 December 2016	<u>119,250</u>	<u>1,120</u>	<u>3,737</u>	<u>409</u>	<u>124,516</u>

	Buildings	Motor vehicles	Equipment	Furniture and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1 January 2016	37,582	5,874	9,723	812	53,991
Additions	–	–	368	18	386
Disposals	–	–	–	–	–
At 31 May 2016	<u>37,582</u>	<u>5,874</u>	<u>10,091</u>	<u>830</u>	<u>54,377</u>
Accumulated depreciation					
At 1 January 2016	(17,005)	(4,314)	(4,516)	(329)	(26,164)
Charge for the period	(380)	(158)	(595)	(46)	(1,179)
Disposals	–	–	–	–	–
At 31 May 2016	<u>(17,385)</u>	<u>(4,472)</u>	<u>(5,111)</u>	<u>(375)</u>	<u>(27,343)</u>
Net book value					
At 31 May 2016	<u>20,197</u>	<u>1,402</u>	<u>4,980</u>	<u>455</u>	<u>27,034</u>
Cost					
At 1 January 2017	138,374	3,847	8,965	852	152,038
Additions	–	–	47	–	47
Disposals	–	–	–	–	–
At 31 May 2017	<u>138,374</u>	<u>3,847</u>	<u>9,012</u>	<u>852</u>	<u>152,085</u>
Accumulated depreciation					
At 1 January 2017	(19,124)	(2,727)	(5,228)	(443)	(27,522)
Charge for the period	(2,389)	(159)	(129)	(26)	(2,703)
Disposals	–	–	–	–	–
At 31 May 2017	<u>(21,513)</u>	<u>(2,886)</u>	<u>(5,357)</u>	<u>(469)</u>	<u>(30,225)</u>
Net book value					
At 31 May 2017	<u>116,861</u>	<u>961</u>	<u>3,655</u>	<u>383</u>	<u>121,860</u>

Note:

- (i) On 22 August 2016, the Company entered into an agreement with Shandong Luxin Energy Investment & Management Co., Ltd. to purchase from it the ownership of a property. The property purchased is part of the Company's office building leased from Shandong Luxin Energy Investment & Management Co., Ltd. The Company has paid the full purchase price of RMB97,261 thousand in 2016.

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) The amounts recognised in the balance sheet are as follows:

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Associates of the Company				
Fullgoal Fund Management Co., Ltd.	252,711	420,309	409,979	454,799
Dezhou Bank Co., Ltd. ("Dezhou Bank")	124,577	139,767	142,414	143,825
First-Trust Fund Management Co., Ltd. ("First-trust FMC")	159,104	123,929	115,336	113,406
Shandong HOWO Auto Finance Co., Ltd.	–	150,438	152,004	157,265
Jinding Leasing Co., Ltd. (Jinding Leasing) (i)	106,097	101,120	–	–
Zouping SPD Rural Bank Co., Ltd.	27,132	26,050	25,869	27,468
Qilu Rural Property Rights Exchange Center Co., Ltd. ("Qilu Exchange") (ii)	6,590	12,512	–	–
Shandong Lu Xin Asset Management Consulting Co., Ltd. (iii)	2,000	2,000	–	–
Gross amount	678,211	976,125	845,602	896,763
Less: Impairment allowance	(2,000)	(2,000)	–	–
Associates of the Company, net	676,211	974,125	845,602	896,763
Associates of the Company's certain consolidated structured entities				
Shandong Provincial Financial Asset Management Co., Ltd ("Shandong AMC") (iv)	–	–	575,500	582,721
Tailong Health Industry Investment Company Limited (Tailong Health) (v)	–	40,000	80,000	80,000
Others	19,000	14,000	65,000	78,160
Gross amount	19,000	54,000	720,500	740,881
Less: Impairment allowance	–	–	–	–
Associates of the Company's certain consolidated structured entities, net	19,000	54,000	720,500	740,881
Total	695,211	1,028,125	1,566,102	1,637,644

Notes:

- (i) In December 2016, the Company disposed its equity interest in Jinding Leasing to Shandong Luxin Financial Holdings Co., Ltd. ("Luxin Financial"), a subsidiary of Lucion Group, at a price of RMB101,164 thousand. The Company has received RMB1,000 thousand cash considerations in December 2016, and the remaining amount was settled in July 2017. Such disposal did not result in significant gain or loss.
- (ii) In December 2016, the Company disposed its equity interest in Qilu Exchange to Lucion Group at a price of RMB12,530 thousand. The Company has received RMB3,000 thousand cash considerations in December 2016, and the remaining amount was settled in July 2017. Such disposal did not result in significant gain or loss.
- (iii) In December 2016, the Company disposed its equity interest in Shandong Lu Xin Asset Management Consulting Co., Ltd. to a government related entity ("Government Related Entity B") at nil consideration. Such disposal did not result in any gain or loss.
- (iv) In December 2016, the Company invested RMB574,500 thousand in a consolidated trust scheme, which further acquired 4.95% equity interests of Shandong AMC, a subsidiary of Lucion Group (Note 36(e)(i)).
- (v) In April 2015, the Company invested RMB37,200 thousand in a consolidated trust scheme, which further acquired 44.44% equity interest of Tailong Health.

(b) Investment in associates

Set out below are the associates of the Group as at 31 May 2017 which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Fullgoal Fund Management Co., Ltd. <i>(i)</i>	Shanghai, China	16.68%	Equity
Dezhou Bank Co., Ltd. <i>(ii)</i>	Shandong, China	4.28%	Equity
First-Trust FMC <i>(iii)</i>	Shanghai, China	45.00%	Equity
Shandong HOWO Auto Finance Co., Ltd. <i>(iv)</i>	Shandong, China	30.00%	Equity
Shandong AMC <i>(vi)</i>	Shandong, China	4.95%	Equity
Tailong Health <i>(vii)</i>	Zhejiang, China	44.44%	Equity

The Group has one seat on the board of Fullgoal Fund Management Co., Ltd., Dezhou Bank Co., Ltd. and Shandong AMC respectively, and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over these entities, even though it only holds 16.68%, 4.28% and 4.95% of the voting rights.

Summarised financial information for significant associates

(i) Fullgoal Fund Management Co., Ltd.

Summarised balance sheet

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	1,855,964	4,114,561	3,501,879	2,808,097
Non-current assets	352,522	504,479	830,934	833,731
Total assets	2,208,486	4,619,040	4,332,813	3,641,828
Current liabilities	(655,346)	(1,825,123)	(1,569,362)	(300,427)
Non-current liabilities	(37,634)	(273,326)	(304,807)	(613,977)
Total liabilities	(692,980)	(2,098,449)	(1,874,169)	(914,404)
Net assets	1,515,506	2,520,591	2,458,644	2,727,424

Summarised statement of comprehensive income

	Year ended 31 December			Five months ended 31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,242,924	3,339,163	2,479,228	941,739
Profit from continuing operations	513,745	1,550,347	1,005,341	375,580
Post-tax profit from continuing operations	383,837	1,167,004	756,330	283,978
Other comprehensive income	34,047	36,081	(44,277)	(15,198)
Total comprehensive income	417,884	1,203,085	712,053	268,780
Dividends received from associate	–	33,017	129,065	–

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate.

Summarised financial information

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Net assets at the beginning of the year/period	1,097,622	1,515,506	2,520,591	2,458,644
Profit for the year/period	383,837	1,167,004	756,330	283,978
Dividend distribution	–	(198,000)	(774,000)	–
Other comprehensive income	34,047	36,081	(44,277)	(15,198)
Net assets at the end of the year/period	<u>1,515,506</u>	<u>2,520,591</u>	<u>2,458,644</u>	<u>2,727,424</u>
Percentage of the Group's interests in the associate	<u>16.68%</u>	<u>16.68%</u>	<u>16.68%</u>	<u>16.68%</u>
Carrying amount of the Group's interests in the associate	<u>252,711</u>	<u>420,309</u>	<u>409,979</u>	<u>454,799</u>

*(ii) Dezhou Bank**Summarised balance sheet*

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	33,758,452	40,584,763	46,828,747	45,066,040
Total liabilities	(30,847,780)	(37,319,170)	(43,501,319)	(41,705,645)
Net assets	<u>2,910,672</u>	<u>3,265,593</u>	<u>3,327,428</u>	<u>3,360,395</u>

Summarised statement of comprehensive income

	Year ended 31 December			Five months ended 31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,325,424	1,485,605	1,331,734	428,323
Profit from continuing operations	552,231	381,188	194,559	162,860
Post-tax profit from continuing operations	359,806	363,026	145,919	122,145
Other comprehensive income	–	121,183	(84,084)	(89,178)
Total comprehensive income	359,806	484,209	61,835	32,967
Dividends received from the associate	4,164	4,854	–	–

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate

Summarised financial information

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Net assets at the beginning of the year/period	2,668,326	2,910,672	3,265,593	3,327,428
Profit for the year/period	359,806	363,026	145,919	122,145
Dividend distribution	(97,289)	(113,400)	–	–
Other comprehensive income	–	121,183	(84,084)	(89,178)
Others	(20,171)	(15,888)	–	–
Net assets at the end of the year/period	2,910,672	3,265,593	3,327,428	3,360,395
Percentage of the Group's interests in the associate	4.28%	4.28%	4.28%	4.28%
Carrying amount of the Group's interests in the associate	124,577	139,767	142,414	143,825

(iii) First-Trust FMC*Summarised balance sheet*

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	131,489	169,750	126,793	126,353
Non-current assets	262,726	330,618	252,717	242,320
Total assets	394,215	500,368	379,510	368,673
Current liabilities	(32,434)	(135,104)	(39,224)	(34,075)
Non-current liabilities	(8,216)	(89,867)	(83,983)	(82,584)
Total liabilities	(40,650)	(224,971)	(123,207)	(116,659)
Net assets	353,565	275,397	256,303	252,014

Summarised statement of comprehensive income

	Year ended 31 December			Five months ended 31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	158,129	227,574	122,617	31,668
Profit/(Loss) from continuing operations	39,963	(41,725)	(9,897)	(4,133)
Post-tax profit/(loss) from continuing operations	28,494	(67,367)	1,749	(4,289)
Other comprehensive income	16,564	(801)	(20,843)	–
Total comprehensive income	45,058	(68,168)	(19,094)	(4,289)
Dividends received from the associate	–	4,500	–	–

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate

Summarised financial information

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Net assets at the beginning of the year/period	308,507	353,565	275,397	256,303
Profit/(Loss) for the year/period	28,494	(67,367)	1,749	(4,289)
Dividend distribution	–	(10,000)	–	–
Other comprehensive income	16,564	(801)	(20,843)	–
Net assets at the end of the year/period	<u>353,565</u>	<u>275,397</u>	<u>256,303</u>	<u>252,014</u>
Percentage of the Group's interests in the associate	45.00%	45.00%	45.00%	45.00%
Carrying amount of the Group's interests in the associate	<u>159,104</u>	<u>123,929</u>	<u>115,336</u>	<u>113,406</u>

*(iv) Shandong HOWO Auto Finance Co., Ltd.**Summarised balance sheet*

	31 December		31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current assets	522,860	300,806	2,218,678
Non-current assets	2,352	1,626,839	1,354,718
Total assets	<u>525,212</u>	<u>1,927,645</u>	<u>3,573,396</u>
Current liabilities	(22,700)	(1,420,966)	(3,049,180)
Non-current liabilities	(1,053)	–	–
Total liabilities	<u>(23,753)</u>	<u>(1,420,966)</u>	<u>(3,049,180)</u>
Net assets	<u>501,459</u>	<u>506,679</u>	<u>524,216</u>

Summarised statement of comprehensive income

	Year ended 31 December		Five months ended 31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	3,106	60,314	70,609
(Loss)/Profit from continuing operations	(772)	8,256	25,983
Post-tax (loss)/profit from continuing operations	(622)	5,220	17,537
Other comprehensive income	–	–	–
Total comprehensive income	(622)	5,220	17,537

Note: The associate was incorporated in September 2015 and relevant financial information for 2014 is not applicable.

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate.

Summarised financial information

	31 December		31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net assets at the beginning of the year/period	–	501,459	506,679
(Loss)/Profit for the year/period	(622)	5,220	17,537
Capital contribution received	502,081	–	–
Dividend distribution	–	–	–
Other comprehensive income	–	–	–
Net assets at the end of the year/period	501,459	506,679	524,216
Percentage of the Group's interests in the associate	30.00%	30.00%	30.00%
Carrying amount of the Group's interests in the associate	150,438	152,004	157,265

(v) *Shandong AMC**Summarised balance sheet*

	31 December	31 May
	2016	2017
	RMB'000	RMB'000
Current assets	24,784,913	25,145,819
Non-current assets	1,130,207	1,305,304
Total assets	25,915,120	26,451,123
Current liabilities	(688,549)	(2,129,512)
Non-current liabilities	(14,176,957)	(13,122,622)
Total liabilities	(14,865,506)	(15,252,134)
Net assets	11,049,614	11,198,989
Including: Net assets attributable to Type C shareholders	7,838,579	7,938,372

Summarised statement of comprehensive income

	Five months ended 31 May
	2017
	RMB'000
Revenue	324,133
Profit from continuing operations	216,534
Post-tax profit from continuing operations	163,776
Including: Post-tax profit attributable to Type C shareholders	114,692
Other comprehensive income	(14,400)
Total comprehensive income	149,376

Note: The associate was acquired on 27 December 2016, the summarised statement of comprehensive income of the associate for the period from the acquisition date to the year ended 31 December 2016 is not provided as the amount is not material to the Group's Financial Information.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate

Summarised financial information

	31 December
	2016
	RMB'000
Closing net assets attributable to Type C	7,838,579
Percentage of the Group's interests in Type C shares	7.24%
Group's share in the associate	567,200
Goodwill	8,300
Carrying amount of the Group's interest in the associate	575,500
	31 May
	2017
	RMB'000
Net assets attributable to Type C shareholders at the beginning of the period	7,838,579
Post-tax profit attributable to Type C shareholders	114,193
Other comprehensive income	(14,400)
Closing net assets attributable to Type C shareholders	7,938,372
Percentage of the Group's interests in Type C shares	7.24%
Group's share in the associate	574,421
Goodwill	8,300
Carrying amount of the Group's interest in the associate	582,721

Note: The Group invests in the Type C shares of Shandong AMC. The Shandong AMC's profit distribution is not proportional to each shareholder's ownership percentage. For type A and B shareholders, if Shandong AMC decides to distribute its profit, they are entitled only to a fixed rate of return. A certain portion of the remaining distributable profit will be further distributed to Type C shareholders. Thus, only movement of net assets attributable to Type C shareholders is disclosed.

(vi) Tailong Health*Summarised balance sheet*

	31 December		31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current assets	25,781	91,014	90,021
Non-current assets	73,768	100,986	100,611
Total assets	99,549	192,000	190,632
Current liabilities	(7)	(23)	(6)
Non-current liabilities	–	(13,000)	(12,458)
Total liabilities	(7)	(13,023)	(12,464)
Net assets	99,542	178,977	178,168

Summarised statement of comprehensive income

	Year ended 31 December		Five months ended 31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	–	–	832
Loss from continuing operations	(458)	(565)	(809)
Post-tax loss from continuing operations	(458)	(565)	(809)
Other comprehensive income	–	–	–
Total comprehensive income	(458)	(565)	(809)

Note: The associate was incorporated in 2015 and relevant financial information for 2014 is not applicable.

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate

Summarised financial information

	31 December		31 May
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net assets at the beginning			
of the year/period	–	99,542	178,977
Loss for the year/period	(458)	(565)	(809)
Capital contribution received . . .	100,000	80,000	–
Dividend distribution	–	–	–
Other comprehensive income . . .	–	–	–
Closing net assets	<u>99,542</u>	<u>178,977</u>	<u>178,168</u>
Percentage of the Group's interests in the associate	<u>40.00%</u>	<u>44.44%</u>	<u>44.44%</u>
Carrying amount of the Group's interests in the associate	<u>40,000</u>	<u>80,000</u>	<u>80,000</u>

Summarised financial information for insignificant associates

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning				
of the year/period	40,212	52,722	52,562	90,869
Acquisition during the year/period . . .	12,500	5,000	51,000	18,500
Disposal during the year/period	–	(5,000)	(12,466)	–
Share of net profits/(loss) for the year/period	2,226	1,362	1,052	(3,741)
Share of other comprehensive income for the year/period	–	–	–	–
Cash dividend received	(2,216)	(1,522)	(1,279)	–
Carrying amount at the end of the year/period	<u>52,722</u>	<u>52,562</u>	<u>90,869</u>	<u>105,628</u>

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity shares (at fair value) (i)	110,868	120,934	42,408	32,238
Unlisted financial instruments (at fair value)				
– Equity investments in unlisted companies (ii)	583,444	360,124	347,718	377,377
– Mutual funds	411,030	639,111	262,629	231,979
– Asset management products (iii)	100	7,284	155,646	158,209
– Trust schemes (iv)	30,521	179,140	–	–
– Trust Industry Protection Fund (v)	–	43,495	57,800	72,313
Total	1,135,963	1,350,088	866,201	872,116

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity shares (at fair value) (i)	110,868	120,934	42,408	32,238
Unlisted financial instruments (at fair value)				
– Equity investments in unlisted companies (ii)	583,444	360,124	347,718	377,377
– Mutual funds	411,030	639,111	262,629	231,979
– Asset management products (iii)	100	7,284	155,646	158,209
– Trust schemes (iv)	30,521	29,140	–	–
– Trust Industry Protection Fund (v)	–	43,495	57,800	72,313
Total	1,135,963	1,200,088	866,201	872,116

Notes:

- (i) As at 31 December 2016 and 31 May 2017, listed equity shares at the fair value of RMB33,632 thousand and RMB24,178 thousand are restricted for sale until 1 August 2017.
- (ii) These equity investments are the Company's investments in other non-listed companies without control, common control and significant influence by the Company. The Company uses the valuation techniques to determine the fair value of these equity investments.
- (iii) The amounts mainly represent the Company's investments in certain asset management products launched by securities firms in the PRC. The fair value of these investments in asset management products is determined based on the net asset value provided by the securities firms.
- (iv) The amounts mainly represent the Group's investments in trust schemes managed by the Company. The fair value of the investments in trust schemes is determined based on the net asset value of the trust schemes.

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

- 1% of the trust company's net assets at the end of preceding financial year as each trust company's own contribution;
- 1% of total proceeds received from issuance of each trust product. For financing trust schemes, the Fund is subscribed by the borrower through the trust company; For trust products which invest in standardised financial products, the Fund is contributed by the trust company;
- For non-cash asset related trust products, the Fund is contributed by the trust company at 5% of total trustee's remuneration.

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

The Company has classified its own contribution to the Fund as available-for-sale financial assets as of 31 December 2015, and 31 December 2016 and 31 May 2017.

Allowance for impairment losses for the Track Record Period are analysed as follow:

The Group and the Company

	Listed Shares	Unlisted financial instruments	Total
	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2014	53,232	27,587	80,819
Net impairment allowance charged to profit or loss	9,612	–	9,612
Transfer out	(29,062)	–	(29,062)
Balance as of 31 December 2014	<u>33,782</u>	<u>27,587</u>	<u>61,369</u>

The Group and the Company

	Listed Shares	Unlisted financial instruments	Total
	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2015	33,782	27,587	61,369
Net impairment allowance charged to profit or loss	–	17,494	17,494
Transfer out	(22,158)	–	(22,158)
Balance as of 31 December 2015	<u>11,624</u>	<u>45,081</u>	<u>56,705</u>

The Group and the Company

	Listed Shares	Unlisted financial instruments	Total
	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2016	11,624	45,081	56,705
Net impairment allowance charged to profit or loss	–	–	–
Transfer out	(8,954)	(22,494)	(31,448)
Write off (i)	–	(13,800)	(13,800)
Balance as of 31 December 2016	<u>2,670</u>	<u>8,787</u>	<u>11,457</u>

The Group and the Company

	Listed Shares	Unlisted financial instruments	Total
	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2017	2,670	8,787	11,457
Net impairment allowance charged to profit or loss	–	–	–
Transfer out	–	–	–
Write off	–	–	–
Balance as of 31 May 2017	<u>2,670</u>	<u>8,787</u>	<u>11,457</u>

Note:

- (i) The amount written off represents the investment in Tiantong Securities Co., Ltd. (Tiantong Securities). Tiantong Securities has suspended operation since year 2006. On 18 March 2016, the board of directors resolved to write off this investment.

18 LOANS TO CUSTOMERS

(a) Analysis of loans to customers:

The Group

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate loans	3,396,411	3,592,792	4,259,691	5,022,171
Less: allowance for impairment losses				
– Collectively assessed	(60,384)	(52,336)	(66,716)	(92,166)
– Individually assessed	(220,730)	(464,024)	(144,740)	(188,144)
	<u>(281,114)</u>	<u>(516,360)</u>	<u>(211,456)</u>	<u>(280,310)</u>
Loans to customers, net	<u>3,115,297</u>	<u>3,076,432</u>	<u>4,048,235</u>	<u>4,741,861</u>
Presented as:				
Non-current assets	1,884,294	969,314	3,133,438	3,307,010
Current assets	1,231,003	2,107,118	914,797	1,434,851
Loans to customers, net	<u>3,115,297</u>	<u>3,076,432</u>	<u>4,048,235</u>	<u>4,741,861</u>

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate loans	141,500	299,890	–	–
Less: allowance for impairment losses	–	–	–	–
– Collectively assessed	(2,830)	(5,998)	–	–
– Individually assessed	–	–	–	–
	(2,830)	(5,998)	–	–
Loans to customers, net	<u>138,670</u>	<u>293,892</u>	–	–
Presented as:				
Non-current assets	–	–	–	–
Current assets	138,670	293,892	–	–
Loans to customers, net	<u>138,670</u>	<u>293,892</u>	–	–

(b) Analysed by collective and individual allowance assessments*The Group*

31 December 2014	Identified impaired loans (ii)					Identified impaired
	Loans for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	Gross loans as a % of total gross loans to customers
Loans to customers, gross	3,019,193	–	377,218	377,218	3,396,411	11.11%
Less: Allowance for impairment	(60,384)	–	(220,730)	(220,730)	(281,114)	
Loans to customers, net	<u>2,958,809</u>	–	<u>156,488</u>	<u>156,488</u>	<u>3,115,297</u>	

The Group

31 December 2015	Identified impaired loans (ii)					Identified impaired
	Loans for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	Gross loans as a % of total gross loans to customers
Loans to customers, gross	2,616,786	–	976,006	976,006	3,592,792	27.17%
Less: Allowance for impairment	(52,336)	–	(464,024)	(464,024)	(516,360)	
Loans to customers, net	<u>2,564,450</u>	–	<u>511,982</u>	<u>511,982</u>	<u>3,076,432</u>	

The Group

31 December 2016	Identified impaired loans (ii)					Identified impaired
	Loans for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	Gross loans as a % of total gross loans to customers
Loans to customers, gross	3,985,800	–	273,891	273,891	4,259,691	6.43%
Less: Allowance for impairment	(66,716)	–	(144,740)	(144,740)	(211,456)	
Loans to customers, net	<u>3,919,084</u>	<u>–</u>	<u>129,151</u>	<u>129,151</u>	<u>4,048,235</u>	

The Group

31 May 2017	Identified impaired loans (ii)					Identified impaired
	Loans for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	Gross loans as a % of total gross loans to customers
Loans to customers, gross	4,608,280	–	413,891	413,891	5,022,171	8.24%
Less: Allowance for impairment	(92,166)	–	(188,144)	(188,144)	(280,310)	
Loans to customers, net	<u>4,516,114</u>	<u>–</u>	<u>225,747</u>	<u>225,747</u>	<u>4,741,861</u>	

Notes:

- (i) Loans for which allowance was collectively assessed consist of loans which have not been identified as impaired.
- (ii) Identified impaired loans include loans for which objective evidence of impairment exists and impairment loss has been identified. The allowance for impairment is measured individually.

The Company

As of 31 December 2014 and 2015, the allowance for impairment for all the loans of the Company were assessed collectively.

(c) Movements of allowance for losses on loans to customers by collective and individual assessments

The Group

	Year Ended 31 December						Five months ended 31 May	
	2014		2015		2016		2017	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment	Collective impairment	Individual impairment	Collective impairment	Individual impairment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	55,424	50,424	60,384	220,730	52,336	464,024	66,716	144,740
Net impairment allowances charged to profit or loss (Note 12)	4,960	170,306	(8,048)	243,294	14,380	24,087	25,450	43,404
Transfer out (i)	-	-	-	-	-	(343,371)	-	-
Balance at end of the year/period	<u>60,384</u>	<u>220,730</u>	<u>52,336</u>	<u>464,024</u>	<u>66,716</u>	<u>144,740</u>	<u>92,166</u>	<u>188,144</u>

Notes:

- (i) In December 2016, the Group disposed of certain loans with the carrying amount of RMB272,469 thousand to Shandong AMC at a total consideration of RMB277,100 thousand (Note 36(e)(i)). The Group de-recognised these loans with the individual impairment allowance of RMB343,371 thousand being transferred out upon disposal. The transfer did not result in any significant gain or loss.
- (ii) In January 2016, the Group disposed of certain loans to Lucion Group at the price of its carrying amount of RMB257,757 thousand (Note 36(e)(i)) with impairment allowance of RMB4,910 thousand. The transfer did not result in any significant gain or loss.

In March 2017, the Group disposed of certain loans to Shandong AMC at the price of their carrying amount of RMB600,000 thousand (Note 36(e)(i)) with impairment allowance of RMB12,000 thousand. The transfer did not result in any significant gain or loss.

19 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

(a) Investments classified as loans and receivables are analysed as follows:

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Investments classified as loans and receivables, gross	166,400	81,780	184,330	262,080
Less: Collectively assessed impairment allowance	(3,328)	(1,636)	(3,687)	(5,242)
Investments classified as loans and receivables, net	<u>163,072</u>	<u>80,144</u>	<u>180,643</u>	<u>256,838</u>
Presented as:				
Non-current assets	93,100	29,400	43,443	104,987
Current assets	69,972	50,744	137,200	151,851
Investments classified as loans and receivables -net	<u>163,072</u>	<u>80,144</u>	<u>180,643</u>	<u>256,838</u>

As of 31 December 2014, 2015 and 2016 and 31 May 2017, there was no any investment classified as loans and receivables that was identified as impaired.

Investments classified as loans and receivables consist of the Company's investments in those unconsolidated trust schemes established and managed by the Company. The underlying assets of these trust schemes are loans to customers.

(b) Movements on allowance for losses on investments classified as loans and receivables

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	Collective impairment RMB'000	Collective impairment RMB'000	Collective impairment RMB'000	Collective impairment RMB'000
Balance at beginning of the year/period	1,552	3,328	1,636	3,687
Net impairment allowances charged/(reversed) to profit or loss (<i>Note 12</i>)	1,776	(1,692)	2,051	1,555
Balance at end of the year/period	<u>3,328</u>	<u>1,636</u>	<u>3,687</u>	<u>5,242</u>

20 ADVANCE PAYMENTS

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for construction projects (i)	160,984	228,136	–	–
Others	4,442	3,638	2,788	7,524
Total	165,426	231,774	2,788	7,524

Note:

- (i) The amount represents advanced payments made by the Group for construction of two office buildings. On 6 December 2016, the Group disposed its interest in the construction projects to Government Related Entity A at a consideration of RMB246,957 thousand. The Group recorded an other operating income amounted to RMB30,970 thousand for the disposal (Note 36(e)(i)).

Among all the cash considerations received from the government related entity, RMB146,957 thousand were settled in December 2016, and RMB100,000 thousand were settled in January 2017.

21 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes related to income taxes levied by the same taxation authority. The movements for deferred tax assets and liabilities recognised are as follows:

The Group and the Company

	At 1 January 2014	Charged/ (credited) to profit or loss	Charged to other comprehensive income	At 31 December 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:				
Fair value changes of financial assets at fair value through profit or loss	6,271	(6,271)	–	–
Impairment allowances for assets	34,899	37,322	–	72,221
Staff salary and welfare payable	7,004	1,802	–	8,806
Others	256	21	–	277
Subtotal	<u>48,430</u>	<u>32,874</u>	<u>–</u>	<u>81,304</u>
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	–	(7,774)	–	(7,774)
Fair value changes of available-for-sale financial assets	(12,422)	–	(98,722)	(111,144)
Subtotal	<u>(12,422)</u>	<u>(7,774)</u>	<u>(98,722)</u>	<u>(118,918)</u>
Net deferred income tax assets	<u>36,008</u>	<u>25,100</u>	<u>(98,722)</u>	<u>(37,614)</u>

The Group and the Company

	At 1 January 2015	Charged to profit or loss	Charged to other comprehensive income	At 31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:				
Impairment allowances for assets	72,221	38,543	–	110,764
Staff salary and welfare payable	8,806	1,231	–	10,037
Others	277	59	–	336
Subtotal	<u>81,304</u>	<u>39,833</u>	<u>–</u>	<u>121,137</u>
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(7,774)	(8,335)	–	(16,109)
Fair value changes of available-for-sale financial assets	(111,144)	–	65,249	(45,895)
Subtotal	<u>(118,918)</u>	<u>(8,335)</u>	<u>65,249</u>	<u>(62,004)</u>
Net deferred income tax (liabilities)/assets	<u>(37,614)</u>	<u>31,498</u>	<u>65,249</u>	<u>59,133</u>

The Group and the Company

	At 1 January 2016	Charged to profit or loss	Charged to other comprehensive income	At 31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:				
Impairment allowances for assets . . .	110,764	(88,852)	–	21,912
Staff salary and welfare payable . . .	10,037	7,699	–	17,736
Others	336	60	–	396
Subtotal	<u>121,137</u>	<u>(81,093)</u>	<u>–</u>	<u>40,044</u>
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss . . .	(16,109)	15,970	–	(139)
Fair value changes of available-for- sale financial assets	(45,895)	–	24,475	(21,420)
Subtotal	<u>(62,004)</u>	<u>15,970</u>	<u>24,475</u>	<u>(21,559)</u>
Net deferred income tax assets	<u>59,133</u>	<u>(65,123)</u>	<u>24,475</u>	<u>18,485</u>

The Group and the Company

	At 1 January 2017	Charged to profit or loss	Charged to other comprehensive income	At 31 May 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:				
Impairment allowances for assets . . .	21,912	11,101	–	33,013
Staff salary and welfare payable . . .	17,736	6,634	–	24,370
Fair value changes of financial assets at fair value through profit or loss	–	1,240	–	1,240
Others	396	64	–	460
Subtotal	<u>40,044</u>	<u>19,039</u>	<u>–</u>	<u>59,083</u>
Deferred income tax liabilities:				
Fair value changes of financial assets at fair value through profit or loss	(139)	139	–	–
Fair value changes of available-for- sale financial assets	(21,420)	–	(1,728)	(23,148)
Subtotal	<u>(21,559)</u>	<u>139</u>	<u>(1,728)</u>	<u>(23,148)</u>
Net deferred income tax assets	<u>18,485</u>	<u>19,178</u>	<u>(1,728)</u>	<u>35,935</u>

22 OTHER NON-CURRENT ASSETS

The Group

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Investment in art work	71,000	87,930	72,048	72,048
Trust Industry Protection Fund (i)	–	159,910	205,063	254,045
Total	71,000	247,840	277,111	326,093

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trust Industry Protection Fund (i)	–	159,910	205,063	254,045
Total	–	159,910	205,063	254,045

Note:

(i) Trust Industry Protection Fund

The amount represents the receivable from the borrowers for subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 17.

23 CASH AND BANK BALANCE

(a) Cash and bank balance

The Group

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	87	43	29	55
Cash at banks	387,469	481,654	274,457	156,866
Total	387,556	481,697	274,486	156,921

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	87	43	29	55
Cash at banks	287,122	338,933	162,048	79,798
Total	287,209	338,976	162,077	79,853

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

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	87	43	29	55
Cash at banks	387,469	481,654	274,457	156,866
Total	387,556	481,697	274,486	156,921

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**The Group**

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets held for trading				
Equity investments				
Listed shares	37,992	49,694	25,673	21,411
Mutual funds	244,767	194,808	48,311	84,053
Subtotal	282,759	244,502	73,984	105,464
Financial assets designated at fair value through profit or loss				
Equity investments held by consolidated structured entities	120,307	148,822	231,491	269,194
Equity investment in an unlisted entity	—	—	—	20,000
Total	403,066	393,324	305,475	394,658

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets held for trading				
Equity investments				
Listed shares	37,992	49,694	25,673	21,411
Mutual funds	244,767	194,808	48,311	84,053
Subtotal	282,759	244,502	73,984	105,464
Financial assets designated at fair value through profit or loss				
Equity investment in an unlisted entity	–	–	–	20,000
Total	282,759	244,502	73,984	125,464

25 FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Government bonds	595,800	423,580	298,900	619,900

26 OTHER CURRENT ASSETS

The Group

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from related parties				
<i>(Note 36(e)(ii))(i)</i>	–	–	109,694	109,694
Trust Industry Protection Fund <i>(ii)</i>	–	–	102,097	212,684
Settlement deposits with securities firms	32,363	1,536	101,007	7,093
Amount due from Government				
Related Entity A <i>(Note 20)</i>	–	–	100,000	–
Input VAT to be deducted	–	–	1,945	1,945
Others, net	18,995	17,922	33,908	31,560
Others, gross <i>(iii)</i>	22,124	21,051	37,037	34,689
Less: Individual impairment allowance	(3,129)	(3,129)	(3,129)	(3,129)
Total	51,358	19,458	448,651	362,976

The Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from related parties				
<i>(Note 36(e)(ii))(i)</i>	–	–	109,694	109,694
Trust Industry Protection Fund <i>(ii)</i>	–	–	102,097	212,684
Settlement deposits with securities firms	81	49	100,142	45
Amount due from a government related entity <i>(Note 36(e)(ii))</i>	–	–	100,000	–
Input VAT to be deducted	–	–	1,945	1,945
Other, net	17,594	17,922	29,865	28,139
Other, gross <i>(iii)</i>	20,723	21,051	32,994	31,268
Less: Individual impairment allowance	(3,129)	(3,129)	(3,129)	(3,129)
Total	17,675	17,971	443,743	352,507

Notes:

(i) The amount due from related parties as of 31 May 2017 are fully settled in July 2017.

(ii) Trust Industry Protection Fund

The amount represents the receivable from the borrowers for subscription of contribution to the Trust Industry Protection Fund in connection with financing trust schemes. For detailed requirement of Trust Industry Protection Fund, please refer to Note 17.

(iii) Auditor's remuneration to be capitalised amounted to RMB2,866 thousand and RMB3,338 thousand as of 31 December 2016, and 31 May 2017, which are included in "Other, gross".

27 SHARE CAPITAL AND CAPITAL RESERVE

In July 2015, the Company was transformed from a limited liability company into a joint stock limited company by means of RMB1 yuan of paid-in capital in exchange for one common share. As of 31 December 2015 and 2016, and 31 May 2017, all shares of the Company issued were fully paid common shares, with par value of RMB1 yuan per share. As of 31 December 2014, the Company's registered capital was fully paid. The Company's paid-in capital and number of common shares are as follows:

The Group and the Company

	31 December
	2014
	RMB'000
Paid-in capital	2,000,000

The Group and the Company

	<u>31 December</u> <u>2015</u>	<u>31 December</u> <u>2016</u>	<u>31 May</u> <u>2017</u>
Number of ordinary shares issued	2,000,000	2,000,000	2,000,000
	<u>31 December</u> <u>2015</u> <u>RMB'000</u>	<u>31 December</u> <u>2016</u> <u>RMB'000</u>	<u>31 May</u> <u>2017</u> <u>RMB'000</u>
Share capital	2,000,000	2,000,000	2,000,000

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

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

As of 31 December 2014, 2015 and 2016 and 31 May 2017, the Group's capital reserve is shown as follows:

The Group and the Company

	<u>31 December</u>			<u>31 May</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Share premium	616,289	616,289	616,289	616,289

Capital reserve can be utilised for increasing share capital as approved by the shareholders.

28 STATUTORY SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

The Group and the Company

	Statutory surplus reserve (i)	Statutory general reserve (ii)
	RMB'000	RMB'000
Balance at 1 January 2014	318,504	231,508
Appropriation to statutory surplus reserve	98,890	–
Appropriation to statutory general reserve	–	129,805
Balance at 31 December 2014	<u>417,394</u>	<u>361,313</u>
Balance at 1 January 2015	417,394	361,313
Appropriation to statutory surplus reserve	102,755	–
Appropriation to statutory general reserve	–	229,147
Balance at 31 December 2015	<u>520,149</u>	<u>590,460</u>
Balance at 1 January 2016	520,149	590,460
Appropriation to statutory surplus reserve	88,378	–
Appropriation to statutory general reserve	–	47,963
Balance at 31 December 2016	<u>608,527</u>	<u>638,423</u>
Balance at 1 January 2017	608,527	638,423
Appropriation to statutory surplus reserve	–	–
Appropriation to statutory general reserve	–	–
Balance at 31 May 2017	<u>608,527</u>	<u>638,423</u>

(i) Statutory surplus reserve

Pursuant to the relevant PRC regulations, the Company is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of registered capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Company's ordinary share capital. The amount of statutory surplus reserve used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the ordinary share capital.

(ii) Statutory general reserve*General risk reserve*

Pursuant to Caijin 2012 No. 20 "Requirements on General Risk Reserve for Financial Institutions" (the "Requirement") effective on 1 July 2012, the Company establishes a statutory general risk reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The statutory general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

Trust compensation reserve

Pursuant to Article 49 of "Administrative Rules on Trust Companies" issued by the CBRC (2007 No.2), the Company is required to appropriate 5% of its net profit to the trust compensation reserve, and such appropriation may cease when it reaches 20% of the Company's registered capital.

29 OTHER RESERVES

The Group and the Company

	<u>Pre-tax amount</u>	<u>Tax charge</u>	<u>Net of tax</u>
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	33,044	(12,422)	20,622
Fair value changes in available-for-sale financial assets	415,129	(103,782)	311,347
Share of other comprehensive income of investments accounted for using the equity method	13,130	–	13,130
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(20,240)	5,060	(15,180)
Balance at 31 December 2014	<u>441,063</u>	<u>(111,144)</u>	<u>329,919</u>
	<u>Pre-tax amount</u>	<u>Tax charge</u>	<u>Net of tax</u>
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	441,063	(111,144)	329,919
Fair value changes in available-for-sale financial assets	(223,021)	55,755	(167,266)
Share of other comprehensive income of investments accounted for using the equity method	10,843	–	10,843
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(37,979)	9,494	(28,485)
Balance at 31 December 2015	<u>190,906</u>	<u>(45,895)</u>	<u>145,011</u>
	<u>Pre-tax amount</u>	<u>Tax charge</u>	<u>Net of tax</u>
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	190,906	(45,895)	145,011
Fair value changes in available-for-sale financial assets	(71,279)	17,819	(53,460)
Share of other comprehensive income of investments accounted for using the equity method	(20,361)	–	(20,361)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(26,623)	6,656	(19,967)
Balance at 31 December 2016	<u>72,643</u>	<u>(21,420)</u>	<u>51,223</u>

The Group

	Pre-tax amount	Tax charge	Net of tax
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	72,643	(21,420)	51,223
Fair value changes in available-for-sale financial assets	9,413	(2,353)	7,060
Share of other comprehensive income of investments accounted for using the equity method	(7,393)	–	(7,393)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(2,501)	625	(1,876)
Balance at 31 May 2017	<u>72,162</u>	<u>(23,148)</u>	<u>49,014</u>

The Company

	Pre-tax amount	Tax charge	Net of tax
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	72,643	(21,420)	51,223
Fair value changes in available-for-sale financial assets	9,413	(2,353)	7,060
Share of other comprehensive income of investments accounted for using the equity method	(6,351)	–	(6,351)
Less: Amounts previously recognised in other comprehensive income reclassified to profit or loss	(2,501)	625	(1,876)
Balance at 31 May 2017	<u>73,204</u>	<u>(23,148)</u>	<u>50,056</u>

30 DIVIDENDS

The Group and the Company

	Year ended 31 December			Five months ended 31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Dividend declared during the years/period	<u>701,054</u>	<u>290,061</u>	<u>395,597</u>	<u>254,212</u>

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

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

In accordance with the relevant regulations, after the Company's initial public offering, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the retained profit determined in accordance with the PRC trust regulations and (ii) the retained profit determined in accordance with IFRS.

31 NET ASSETS ATTRIBUTABLE TO OTHER BENEFICIARIES OF CONSOLIDATED STRUCTURED ENTITIES

Net assets attributable to other beneficiaries of consolidated structured entities represent other beneficiaries' share of net assets of the Company's consolidated structured entities.

32 SHORT-TERM BORROWINGS

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings from China Trust Protection Fund Co., Ltd.	–	–	500,000	300,000

To further expand proprietary business, the Company obtained two borrowings from China Trust Protection Fund Co., Ltd. with the principal amounts of RMB200 million and RMB300 million and interest rate of 6.3% and 5.8% in June 2016 and August 2016, respectively. Each of the two borrowings has a term of 12 months but may be early repaid after 9 months from the origination of the loan. In April 2017, the Company fully repaid the RMB200 million short-term loan together with interest.

33 OTHER CURRENT LIABILITIES

The Group and the Company

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Subscription amount of Trust Industry Protection Fund collected from borrowers (i)	–	178,420	58,685	10,278
Deferred trustee's remuneration fee income	50,191	14,675	26,333	28,231
Other tax payable	51,675	60,990	39,474	13,877
Interest payable to China Trust Protection Fund Co., Ltd.	–	–	–	3,335
Others	14,422	6,223	1,769	6,009
Total	116,288	260,308	126,261	61,730

Note:

- (i) The amounts represents the subscription amounts collected by the Company from the borrowers of its financing trust schemes, which will then be contributed to the Trust Industry Protection Fund on behalf of such borrowers.

34 STRUCTURED ENTITIES

(a) Structured entities that are not consolidated

(i) Unconsolidated structured entities managed by the Company

The unconsolidated structured entities managed by the Group are trust schemes established and managed by the Group as trustee. Based on the analysis and research of the potential target customers, the Company designs and offers trust products to meet the needs of its customers. The proceeds raised are then invested in relevant financial markets or financial products in accordance with the contractual terms of the trust agreements. Investment return shall be allocated to investors according to the contractual agreements. The Company receives remuneration as the trustee of these trust schemes, and gets investment return from the trust schemes in which the Group has made direct investment. The Company considered its variable returns (being the trustee's remunerations and investment return if any, on an aggregate basis) from its involvement with these structured entities are insignificant and hence it does not consolidate these structured entities.

As of 31 December 2014, 2015 and 2016 and 31 May 2017, the volume of unconsolidated trust schemes established and managed by the Company amounted to RMB323,728 million, RMB237,596 million, RMB249,202 million and RMB249,083 million respectively. The Company's maximum exposure to these unconsolidated structured entities is the trustee's remuneration receivables and the amounts of such receivables is RMB769,375 thousand, RMB671,119 thousand, RMB203,089 thousand and RMB403,946 thousand at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively.

During the years ended 31 December 2014, 2015 and 2016 and five months ended 31 May 2017, the Group did not provide financial or other support to these structured entities.

(ii) Unconsolidated structured entities invested by the Company

As of 31 December 2014, 2015 and 2016 and 31 May 2017, the Company invested in a number of unconsolidated trust schemes established and managed by the Company or other structured entities established and managed by third parties. These investments in unconsolidated structured entities are classified as financial assets at fair value through profit or loss, available-for-sale financial assets and investments classified as loans and receivables.

During the years ended 31 December 2014, 2015 and 2016 and five months ended 31 May 2016 and 2017, the Group did not provide financial or other support to these structured entities.

The table below sets out the carrying value and the Group's maximum exposure (including interest receivable) to these unconsolidated structured entities.

	Carrying value	Maximum exposure to loss	Total volume of structured entities
	RMB'000	RMB'000	RMB'000
At 31 December 2014			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	244,767	244,767	2,654,150
Available-for-sale financial assets			
– Mutual funds managed by third parties	411,030	411,030	5,990,650
– Asset management products by third parties	100	100	<i>Note 1</i>
– Trust schemes established and managed by the Company	30,521	30,521	150,000
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	163,072	163,072	1,358,030
At 31 December 2015			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	194,808	194,808	6,699,220
Available-for-sale financial assets			
– Mutual funds managed by third parties	639,111	639,111	62,523,637
– Asset management products managed by third parties	7,284	7,284	<i>Note 1</i>
– Trusts schemes managed by the Company	29,140	29,140	150,000
– Trusts schemes managed by the third parties	150,000	150,000	<i>Note 1</i>
– Trust Industry Protection Fund managed by third party	43,495	43,495	<i>Note 1</i>
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	80,144	80,144	1,000,000

	Carrying value	Maximum exposure to loss	Total volume of structured entities
	RMB'000	RMB'000	RMB'000
At 31 December 2016			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	48,311	48,311	85,748
Available-for-sale financial assets			
– Mutual funds managed by third parties	262,629	262,629	4,533,820
– Asset management products managed by third parties	155,646	155,646	<i>Note 1</i>
– Trust Industry Protection Fund managed by third parties	57,800	57,800	<i>Note 1</i>
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	180,643	180,643	1,660,000
At 31 May 2017			
Financial assets at fair value through profit or loss			
– Mutual funds managed by third parties	84,053	84,053	162,332
Available-for-sale financial assets			
– Mutual funds managed by third parties	231,979	231,979	2,686,737
– Asset management products managed by third parties	158,209	158,209	<i>Note 1</i>
– Trust Industry Protection Fund managed by third parties	72,313	72,313	<i>Note 1</i>
Investments classified as loans and receivable			
– Trust schemes established and managed by the Company	256,838	256,838	2,212,000

Note 1: Total volume of these asset management products, trust schemes and Trust Industry Protection Fund is not available in the public information.

The Group earns remuneration for providing services to trust schemes established and managed by the Company.

(b) Consolidated structured entities

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

At 31 December 2014, 2015 and 2016 and 31 May 2017, the number of consolidated trust schemes established and managed by the Company were 33, 35, 36 and 36 and total assets of consolidated trust schemes amounted to RMB3,368,024 thousand, RMB3,441,867 thousand, RMB5,209,975 thousand and RMB6,000,545 thousand, respectively.

While the Group has no contractual obligation to provide liquidity or other support to any trust that may not be able to collect all payments from the counterparty according to its contract before the trust expiration date (the "troubled trusts"), the Group may at its discretion use its own funds to facilitate the distributions to other beneficiaries at maturity of trust schemes, after evaluating the likelihood of ultimate repayments from borrowers or other sources and considering other factors such as potential reputational damage to the Company. As soon as those troubled trust met the criteria of consolidated structured entities, the Group then consolidated these troubled trust. As at 31 December 2014, 2015 and 2016 and 31 May 2017, total assets of such troubled trusts amounted to RMB377,218 thousand, RMB976,006 thousand, RMB257,851 and RMB258,037 thousand, respectively, and impairment allowance have been made amounted to RMB220,731 thousand, RMB464,025 thousand, RMB144,423 thousand, and RMB177,584 thousand, respectively.

35 CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitment

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not yet incurred	2,677	3,595	2,175	2,836

These capital commitments mainly relate to purchase of intangible assets.

(b) Operating leasing commitment

The future minimum lease payments under irrevocable rental contracts are listed as follows:

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,582	7,513	492	544
Between one year and five years	894	1,489	909	616
Total	2,476	9,002	1,401	1,160

(c) Legal proceedings

The Group believes the legal proceedings that remains outstanding as at 31 December 2014, 2015 and 2016 and 31 May 2017 which the Group and the Company are interested party would not have a material impact on its financial position or operations.

In May 2017, the People's Procuratorate of Liangshan County, Jining City in Shandong Province commenced investigation against Mr. Song Chong, a former vice general manager of the Company, and Mr. Song Chong was arrested by the People's Procuratorate of Jining City, Shandong Province in July 2017. At the date of this report, the case is in the process of being investigated by the People's Procuratorate of Liangshan County, Jining City, in Shandong Province. In addition, in May 2017, the beneficial rights of an

individual administrative management trust with outstanding assets under management of RMB34 million was frozen by the Company according to the order of the People's Procuratorate of Liangshan County, Jining city in Shandong Province. At the date of this report, the outstanding assets under management of this individual administrative management trust is RMB18 million as the People's Procuratorate of Liangshan Country lifted the freeze for short periods of time which allowed some of the trust assets to be distributed pursuant to instructions of the trustor.

The directors have considered all the information available to them, including among others, legal opinion from the Company's legal counsels, and have concluded that such incident would not have material impact on the Group's financial results and financial positions as at and for the years ended 31 December 2014, 2015 and 2016, and the five months ended 31 May 2017.

36 RELATED PARTY TRANSACTIONS

The Group is controlled by Lucion Group, together with Luxin Venture Capital and Shandong High-Tech Venture Capital which are both controlled by Lucion Group, it aggregately owns 69.27% of the shares of the Company at 31 December 2016. Lucion Group is further controlled by Shandong State-owned Assets Supervision and Administration Commission. The remaining 30.73% of the shares of the Company are held by CNPC Assets Management Co., Ltd. ("CNPC AMC"), Shandong Gold Group Co., Ltd. ("Shandong Gold Group"), Weifang Investment Group Co., Ltd. ("Weifang Investment") and Jinan Energy Investment Co., Ltd. ("Jinan Energy Investment") at 31 May 2017 respectively.

The Company's directors were of the view that Lucion Group, Luxin Venture Capital, Shandong High-Tech Venture Capital, CNPC AMC, Shandong Gold Group, Weifang Investment, Jinan energy Investment and their subsidiaries were considered as related parties of the Group. Certain trust schemes were also considered as related parties of the Group. Transactions with key management personnel have been disclosed in Note 36(d) below. The Group's transactions with related parties are conducted under the ordinary course of business.

(a) Transactions with trust schemes considered to be related parties of the Group

During the Track Record Period, certain trust schemes were considered to be related parties if they are either controlled by the Group or its Parent ("Lucion Group").

	31 December			31 May	
	2014	2015	2016	2016	2017
Number of trust schemes controlled by the Group (Note 34(b))	33	35	36	39	36
Number of trust schemes controlled by Lucion Group (excluding those controlled by the Group)	38	43	25	40	21

Total entrusted assets of the trust schemes controlled by Lucion Group are as follows:

	31 December			31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total entrusted assets of trust schemes controlled by Lucion Group	6,331,411	8,022,107	5,218,177	8,233,031	2,909,715

The Group remuneration from trust schemes controlled by Lucion Group is as follows:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income	13,295	23,429	26,827	13,243	4,674

(b) Related parties as trustors of trust schemes (including those consolidated structured entities)

During the Track Record Period, Lucion Group, Shandong Gold Group, Weifang Investment and their subsidiaries, joint ventures and associates have acted as the trustors of certain trust schemes established and managed by the Group.

(i) Related parties as trustors of consolidated trust schemes

Related parties' interests in these consolidated trust schemes are reported as other liabilities in the Group's consolidated statements of financial position (Note 31).

	31 December			31 May	
	2014	2015	2016	2016	2017
Number of trust schemes where the related parties act as trustors	4	4	7	4	9
Interests of related parties in these consolidated trust schemes (in RMB thousand)	119,351	131,277	193,728	82,114	75,898

Trust benefits paid or payable to related parties by consolidated trust schemes have been accounted for as interest expense (Note 9) in the Group's consolidated statements of comprehensive income:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest expense	38,858	7,118	1,355	24	462

(ii) Related parties as trustors of unconsolidated trust schemes of the Group

	31 December			31 May	
	2014	2015	2016	2016	2017
Number of unconsolidated trust schemes where related parties acts as trustors	69	78	75	62	43
Assets entrusted by related parties (in RMB thousand)	5,941,506	7,872,740	5,053,274	5,783,262	3,734,978
Total entrusted assets of these unconsolidated trust schemes (in RMB thousand)	<u>8,814,268</u>	<u>9,695,842</u>	<u>10,188,948</u>	<u>7,951,449</u>	<u>5,019,833</u>

Trustee's remuneration received or receivable from such trust schemes has been accounted for as fee and commission income in the Group's consolidated statements of comprehensive income, and is illustrated below:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income	<u>60,962</u>	<u>69,837</u>	<u>103,120</u>	<u>22,948</u>	<u>47,324</u>

(c) Related parties financed by trust schemes**(i) Related parties financed by unconsolidated trust schemes of the Group**

	31 December			31 May	
	2014	2015	2016	2016	2017
Number of unconsolidated trust schemes which provide financing to related parties	35	40	39	31	26
Amount financed (in RMB thousand)	4,939,979	11,222,189	13,743,769	4,281,109	12,188,127
Total entrusted assets of these unconsolidated trust schemes (in RMB thousand)	<u>4,939,979</u>	<u>11,222,189</u>	<u>13,743,769</u>	<u>4,281,109</u>	<u>12,188,127</u>

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's consolidated statements of comprehensive income, and are illustrated below:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income	19,773	22,462	67,597	10,790	18,263

(d) Related parties transactions with key management personnel and their immediate family members

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, including directors, supervisors, and senior management personnel.

(i) Key management compensation

The compensation paid or payable to key management personnel is shown below:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and allowances	6,938	3,905	5,257	1,493	2,176
Discretionary bonuses	13,856	14,517	17,567	2,943	4,716
Pension	670	827	818	143	190
Other social security obligations	567	622	637	268	362
	22,031	19,871	24,279	4,847	7,444

(ii) Key management personnel and their immediate family members' personal investments in trust schemes managed by the Company

	31 December			31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Key management's personal investments in trust schemes	122,275	53,015	27,880	27,730	13,215
Total entrusted assets of these trust schemes	5,355,596	5,068,652	3,379,415	4,065,092	194,124

Trustee's remuneration received or receivable from such trust schemes have been accounted for as fee and commission income in the Group's consolidated financial statements, and are illustrated below:

	Year ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income	75,711	71,041	58,941	27,727	4,338

(e) Other related parties transactions

(i) Significant transactions with related parties

During the Track Record Period, the Group had the following significant transactions with related parties:

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investment in Shandong AMC (Note 16(a)(v))	–	–	575,500	–	–
Loans sold to Shandong AMC by the Group (Note 18(c)(i)(ii))	–	–	277,100	–	600,000
Loans sold to Shandong AMC by the Company as the trustee of unconsolidated structured entities	–	–	296,843	–	568,506
Loans sold to Lucion Group by the Group (Note 18(c)(ii))	–	–	257,757	257,757	–
Loans sold to Lucion Group by the Company as the trustee of unconsolidated structured entities	–	–	89,728	–	–
Considerations received and receivable from Government Related Entity A for purchase of Company's certain construction projects (Note 20)	–	–	246,957	–	–

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors' and senior management emoluments paid by Lucion Group on behalf of the Group	633	649	375	206	73
Advertising costs paid to Shandong Luxin Culture and Media Investment Group Co., Ltd.	144	—	—	—	—
Advertising costs paid to Shandong Luxin Advertisement Co., Ltd.	2,276	2,694	2,389	1,191	967
Advertising costs paid to Shandong Luxin Cinema Circuit Co., Ltd.	36	58	—	—	—
Rental expense paid to Shandong Luxin Energy Investment & Management Co., Ltd.	1,529	1,485	996	620	—
Properties management expenses paid to Shandong Luxin Hengsheng Property Management Co., Ltd.	4,940	4,991	9,485	2,084	3,514
System maintenance expenses paid to Luxin Science and Technology Co., Ltd.	—	—	326	—	—
Investment consulting fee paid to Shandong Taishan Culture Art Exchange Co., Ltd.	—	1,500	—	—	—
Investment consulting fee paid to First-Trust FMC	2,000	—	—	—	—
Disposal of equity interest in an associate to Luxin Financial (Note 16(a)(i))	—	—	101,164	—	—

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disposal of equity interest in an associate to Lucion Group (Note (16(a)(ii)))	-	-	12,530	-	-
Sales of available-for-sale equity investments to Shandong Luxin Culture Media Investment Group Co., Ltd.	-	-	12,106	-	-
Purchase of office building from Shandong Luxin Energy Investment & Management Co., Ltd.	-	-	97,261	-	-
System equipments paid to Luxin Science and Technology Co., Ltd.	-	-	-	-	1,413
Product promotion fee paid to Shandong Luxin Industrial Co., Ltd.	-	-	43	43	-
Rental income paid by Shandong Luxin Hengsheng Property Management Co., Ltd.	-	-	49	-	76
Tender fee paid to Luxin International Tendering Co., Ltd.	-	-	513	-	-
Donation paid to Luxin Public Welfare Foundation	-	-	-	-	2,000

(ii) Balances with related parties

	Years ended 31 December			Five months ended 31 May	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from related parties					
– Due from Government Related Entity A (Note 20)	–	–	100,000	–	–
– Due from Luxin Financial (Note 16(a)(i))	–	–	100,164	–	100,164
– Due from First-trust FMC	6,433	6,433	6,433	6,433	6,433
– Due from Lucion Group (Note 16(a)(ii))	–	–	9,530	–	9,530
– Due to Lucion Group (Note 36(e)(i))	–	–	–	–	73
Total	6,433	6,433	216,127	6,433	116,200

As at 31 December 2014, 2015 and 2016 and 31 May 2017, all the balances with related parties were non-trade receivable/payable in nature and were not interest bearing.

(f) The Group and other government related entities

Other than disclosed above and also in other relevant notes in this Financial Information, some of the trust schemes managed by the Group are entered into with government authorities, agencies, affiliates and other state controlled entities who mainly act as the trustors. Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for such kind of trust schemes, and such pricing schemes do not depend on whether or not the counterparties are government authorities, agencies, affiliates and other state controlled entities.

37 SEGMENT ANALYSIS**(a) Operating segments**

The Group manages its operating segments from business perspectives. The Group conducts its business through two main operating segments listed below:

- Proprietary business; and
- Trust business.

	Year ended 31 December 2014			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income . . .	–	1,285,278	–	1,285,278
Interest income	346,334	37,222	–	383,556
Net changes in fair value on financial assets at fair value through profit or loss	47,981	–	–	47,981
Investment income	48,820	–	–	48,820
Other operating income	–	542	–	542
Total operating income	443,135	1,323,042	–	1,766,177
Interest expenses	(124,866)	–	–	(124,866)
Staff costs (including directors and supervisors' emoluments)	(2,568)	(99,171)	–	(101,739)
Operating lease payments	–	(8,819)	–	(8,819)
Depreciation and amortisation	(127)	(2,725)	–	(2,852)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,993	–	–	1,993
Business tax and surcharges	(17,105)	(68,655)	–	(85,760)
Other operating expenses	(331)	(66,248)	–	(66,579)
Impairment losses on financial assets	(186,654)	–	–	(186,654)
Total operating expenses	(329,658)	(245,618)	–	(575,276)
Share of profit from investments accounted for using the equity method	94,605	–	–	94,605
Operating profit before income tax	208,082	1,077,424	–	1,285,506

	31 December 2014			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,332,470	1,082,828	219,724	7,635,022
Segment liabilities	1,800,405	41,608	396,070	2,238,083

	Year ended 31 December 2015			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income . . .	–	1,052,233	–	1,052,233
Interest income	456,477	4,138	–	460,615
Net changes in fair value on financial assets at fair value through profit or loss	55,527	–	–	55,527
Investment income	215,838	–	–	215,838
Other operating income	–	1,489	–	1,489
Total operating income	727,842	1,057,860	–	1,785,702
Interest expenses	(106,441)	–	–	(106,441)
Staff costs (including directors and supervisors' emoluments)	(3,398)	(112,344)	–	(115,742)
Operating lease payments	–	(8,794)	–	(8,794)
Depreciation and amortisation	(134)	(3,131)	–	(3,265)
Change in net assets attributable to other beneficiaries of consolidated structured entities	(18)	–	–	(18)
Business tax and surcharges	(29,961)	(56,961)	–	(86,922)
Other operating expenses	(251)	(42,744)	–	(42,995)
Impairment losses on financial assets	(251,048)	–	–	(251,048)
Total operating expenses	(391,251)	(223,974)	–	(615,225)
Share of profit from investments accounted for using the equity method	175,336	–	–	175,336
Operating profit before income tax	511,927	833,886	–	1,345,813

	31 December 2015			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,710,824	1,206,430	253,498	8,170,752
Segment liabilities	1,529,182	20,896	623,194	2,173,272

	Year ended 31 December 2016			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income . . .	–	827,540	–	827,540
Interest income	445,381	9,845	–	455,226
Net changes in fair value on financial assets at fair value through profit or loss	(81,046)	–	–	(81,046)
Investment income	84,080	–	–	84,080
Other operating income	30,970	10,611	–	41,581
Total operating income	479,385	847,996	–	1,327,381
Interest expenses	(88,097)	–	–	(88,097)
Staff costs (including directors and supervisors' emoluments)	(3,987)	(157,764)	–	(161,751)
Operating lease payments	–	(10,793)	–	(10,793)
Depreciation and amortisation	(185)	(5,499)	–	(5,684)
Change in net assets attributable to other beneficiaries of consolidated structured entities	1,316	–	–	1,316
Business tax and surcharges	(11,417)	(13,225)	–	(24,642)
Other operating expenses	(1,439)	(56,893)	–	(58,332)
Impairment losses on financial assets	(40,518)	–	–	(40,518)
Total operating expenses	(144,327)	(244,174)	–	(388,501)
Share of profit from investments accounted for using the equity method	138,248	–	–	138,248
Operating profit before income tax	473,306	603,822	–	1,077,128

	31 December 2016			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	7,556,853	911,818	179,352	8,648,023
Segment liabilities	2,220,112	85,018	1,769	2,306,899

Five months ended 31 May 2016

	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income . . .	–	308,897	–	308,897
Interest income	141,053	1,040	–	142,093
Net changes in fair value on financial assets at fair value through profit or loss	(106,128)	–	–	(106,128)
Investment income	32,522	–	–	32,522
Other operating income	–	180	–	180
Total operating income	67,447	310,117	–	377,564
Interest expenses	(5,445)	–	–	(5,445)
Staff costs (including directors and supervisors' emoluments)	(1,110)	(48,886)	–	(49,996)
Operating lease payments	–	(3,358)	–	(3,358)
Depreciation and amortisation	(61)	(1,451)	–	(1,512)
Change in net assets attributable to other beneficiaries of consolidated structured entities	54,455	–	–	54,455
Business tax and surcharges	(9,032)	(13,980)	–	(23,012)
Other operating expenses	(61)	(20,873)	–	(20,934)
Impairment losses on financial assets	(28,482)	–	–	(28,482)
Total operating expenses	10,264	(88,548)	–	(78,284)
Share of profit from investments accounted for using the equity method	54,910	–	–	54,910
Operating profit before income tax	132,621	221,569	–	354,190

31 May 2016

	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,373,997	784,749	255,349	7,414,095
Segment liabilities	1,143,049	230,748	289,084	1,662,881

	Five months ended 31 May 2017			
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Fee and commission income . . .	–	472,689	–	472,689
Interest income	182,708	1,163	–	183,871
Net changes in fair value on financial assets at fair value through profit or loss	(8,322)	–	–	(8,322)
Investment income	4,619	–	–	4,619
Other operating income	–	1,328	–	1,328
Total operating income	179,005	475,180	–	654,185
Interest expenses	(51,607)	–	–	(51,607)
Staff costs (including directors and supervisors' emoluments)	(1,392)	(67,196)	–	(68,588)
Operating lease payments	(141)	(4,293)	–	(4,434)
Depreciation and amortisation	(97)	(2,950)	–	(3,047)
Change in net assets attributable to other beneficiaries of consolidated structured entities	3,276	–	–	3,276
Business tax and surcharges	–	(4,140)	–	(4,140)
Other operating expenses	(305)	(14,704)	–	(15,009)
Impairment losses on financial assets	(70,409)	–	–	(70,409)
Total operating expenses	(120,675)	(93,283)	–	(213,958)
Share of profit from investments accounted for using the equity method	60,471	–	–	60,471
Operating profit before income tax	118,801	381,897	–	500,698
31 May 2017				
	Proprietary business	Trust business	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	8,932,719	1,074,542	44,974	10,052,235
Segment liabilities	3,523,170	38,510	6,008	3,567,688

38 SUBSEQUENT EVENTS

Up to the date of this report, the Group has no material events happened after 31 May 2017.

39 FINANCIAL RISK MANAGEMENT**Overview**

The Group's activities expose it to a variety of financial risks: market risk (primarily price risk and interest rate risk), credit risk and liquidity risk. Risk management is key to the business operation of the Group. The Group's aims to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The main business of the Group includes trust business and proprietary business. The Group considers risk monitoring, mitigation, resolution and disposition as critical procedures to manage the risk of its trust business, as any failure to identify, mitigate, resolve or dispose of risks of each trust scheme may materially and adversely affect the reputation and financial performance of the Group. The Group has established a comprehensive risk management framework which include a three-level risk management system with clear responsibilities assigned to each level as follows:

- Level 1 system is the Trust Business Committee of the board of directors which is responsible for defining the risk appetite, risk management policies and internal control policies of the Company;
- Level 2 system is at the level of senior management including the Company's General Manager, Vice General managers and the Chief Risk Officer, who are responsible for overseeing the Company's daily risk management functions and activities in accordance with the Company's risk tolerance level and risk management and internal control polices as approved by the Board of Directors;
- Level 3 system mainly refer to relevant business and functional departments of the Company, including mainly Trust Business Departments, Risk Management Department, Legal & Compliance Department and Asset Disposition Department which are mainly responsible for risks identification, mitigation, monitoring, reporting, and resolution.

39.1 Credit risk**39.1.1 Credit risk measurement**

Credit risk refers to the risk that the clients or counterparties fail to fulfil contractual obligations. The Group's credit risk mainly arises from its trust business and proprietary business.

The credit risk of the Group's trust business mainly refers to the risk that the Group, as the trustee, fails to receive its due remuneration which is agreed in the trust contract with the trustors. Pursuant to the terms of trust contract, as long as the Group fulfil its duties stated in trust contract in its capacity as trustee, it is entitled to receive the remuneration specified in the trust contract. The Group has the priority over the trust beneficiaries to receive a fixed remuneration from the trust scheme's assets, which is the major source of the Company's income from the trust business. The Group's trustee remuneration receivables are included in the "trustee's remuneration receivable" in the consolidated balance sheet.

Some of the Group's trust schemes are financing trust schemes. Under such schemes, the failure of fulfilling the repayment obligations by the ultimate borrowers will negatively affect the Group's entitlement to receive its fixed and floating remuneration as stated in the trust contract. The Group assesses and manages the borrower's default risk of its financing trust scheme through initial due diligence, approval, and monitoring over the borrowers pursuant to the trust contract. The measures taken by the Group to mitigate the default risk by borrower include mainly obtaining third party guarantee and collateral as credit enhancements. In many cases where such default by borrower arises, the Group is also required by trust contract to act on the best interests of the beneficiaries by taking necessary resolution and disposition measures to minimise the loss of trust assets. However, the Group does not guarantee fixed return or compensate any investment loss to

the beneficiaries of the trust, and the PRC laws and regulations also prohibit the Group from doing so. While the Group has no contractual obligation to provide liquidity or other supports to any troubled trusts, the Group may use its own funds to facilitate the distributions to other beneficiaries at maturity of trust schemes, after evaluating the likelihood of ultimate repayments from borrower or other sources and considering other factors such as potential reputational damage to the Company.

The Group's proprietary business mainly includes the Group's own debt and equity investments. The management formulates its annual investment plan which consists of concentration limit for each type of investment and such annual plan shall be approved by the Board of Directors. According to such plan, the Group invests in certain trust schemes established and managed by itself, listed or unlisted equity securities, mutual funds, loans and other asset management plans. For investments in its own trust schemes, the Group assesses the significance of its variable returns from its involvement in these plans and determined whether these trust schemes need to be consolidated or not. The underlying assets of consolidated trust schemes are reported in the same balance sheet line items as the Company's own assets.

39.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements:

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Cash and cash equivalents	387,556	481,697	274,486	156,921
Financial assets purchased under				
agreements to resell	595,800	423,580	298,900	619,900
Loans to customers	3,115,297	3,076,432	4,048,235	4,741,861
Investments classified as				
loans and receivables	163,072	80,144	180,643	256,838
Trust Industry Protection				
Fund	–	159,910	307,160	466,729
Other financial assets	835,960	762,462	473,502	474,178
Total	5,097,685	4,984,225	5,582,926	6,716,427

The above table represents a worst-case scenario of credit risk exposure to the Group as of 31 December 2014, 2015 and 2016 and 31 May 2017, without taking into account any related collateral or other credit enhancements. Loans to customers account for 61.11%, 61.72%, 72.51% and 70.60% of the Group's total credit risk exposures at 31 December 2014, 2015 and 2016 and 31 May 2017. Other major credit risk exposures include investments classified as loans and receivables, amount receivable from borrowers for subscription of contribution to the Trust Industry Protection Fund, trust remuneration receivables and other receivables included in other financial assets.

39.1.3 Loans to customers

(a) Analysis of loans to customers by overdue and impaired status

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Neither overdue nor impaired	3,019,193	2,616,786	3,985,800	4,608,280
Impaired	377,218	976,006	273,891	413,891
Gross	3,396,411	3,592,792	4,259,691	5,022,171
Less: Collective impairment allowance	(60,384)	(52,336)	(66,716)	(92,166)
Individual impairment allowance	(220,730)	(464,024)	(144,740)	(188,144)
Total allowance	(281,114)	(516,360)	(211,456)	(280,310)
Net	3,115,297	3,076,432	4,048,235	4,741,861

(b) Loans to customers neither overdue nor impaired

88.89%, 72.83%, 93.57% and 91.76% of the Group's loans to customers were neither overdue nor impaired at 31 December 2014, 2015 and 2016 and 31 May 2017 respectively. They can be further analysed by the type of security as follows:

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Collateralised loans	1,821,113	1,626,786	2,712,520	2,905,000
Pledged loans	809,780	850,000	437,280	757,280
Guaranteed loans	148,300	140,000	836,000	946,000
Unsecured loans	240,000	–	–	–
Gross	3,019,193	2,616,786	3,985,800	4,608,280
Less: Collective impairment allowances	(60,384)	(52,336)	(66,716)	(92,166)
Net	2,958,809	2,564,450	3,919,084	4,516,114

(c) Loans to customers that are impaired

The impaired loans to customers are all held by the Group's consolidated trust schemes as a result of liquidity and other supports provided by the Group according to their individual resolution plans established by the Group, or proprietary investment made by the Company in the trust scheme. The gross amount, individual impairment allowance and fair value of collateral held are as follows:

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate loans to customers	377,218	976,006	273,891	413,891
Less: Individual impairment allowances	(220,730)	(464,024)	(144,740)	(188,144)
Net	<u>156,488</u>	<u>511,982</u>	<u>129,151</u>	<u>225,747</u>
Fair value of collateral:				
Corporate loans to customers	<u>349,347</u>	<u>601,440</u>	<u>133,868</u>	<u>316,110</u>

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realisation of the collateral in current market conditions.

(d) Loans to customers renegotiated

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to customers renegotiated	<u>–</u>	<u>106,000</u>	<u>140,000</u>	<u>140,000</u>

39.1.4 *Other major credit risk exposures:*

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Investments classified as loans and receivables (Note 19)	163,072	80,144	180,643	256,838
Trust Industry Protection Fund	–	159,910	307,160	466,729
Due from Government Related Entity A (Note 20)	–	–	100,000	–
Due from Luxin Financial (Note 16(a)(ii))	–	–	100,164	100,164
Due from Lucion Group (Note 16(a)(iii))	–	–	9,530	9,530
Trustee's remuneration receivable	769,375	671,119	203,089	403,946
Total	932,447	911,173	900,586	1,237,207

In July 2017, the Company collected the amount due from Luxin Financial and Lucion Group in full. As at 31 December 2014, 2015 and 2016 and 31 May 2017, the rest of these receivables are neither overdue nor impaired.

39.2 Market risk**39.2.1 Overview**

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from price risk and interest rates risk.

39.2.2 Price risk

Certain financial assets such as financial assets at FVTPL and available for sale financial assets are measured at fair values at the end of each reporting periods. The Group is exposed to price risks that may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may result from by the factors relating to the financial instruments itself or the issuer, and it may also result from by market factors.

The Company's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Board of Directors.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of financial assets at fair value through profit or loss and available-for-sale financial assets measured at fair value on the Group's profit before tax and equity.

Profit before income tax

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
+1 percent	4,031	3,933	3,055	3,947
-1 percent	(4,031)	(3,933)	(3,055)	(3,947)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Equity impact before income tax

	31 December			31 May
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
+1 percent	12,551	14,059	11,717	12,668
-1 percent	(12,551)	(14,059)	(11,717)	(12,668)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

39.2.3 Interest rate risk

Interest rate risk refers to the possibility that the Group's financial position and cash flow fluctuates due to changes in market interest rate. The changes in market interest rate may lead to increase or decrease in interest income of the Group, which will impact the amount of total profit and owners' equity. The Group's interest rate risk management is mainly focused on cash flow interest rate risk management.

As at 31 December 2014, 2015 and 2016 and 31 May 2017, the main interest bearing assets held by the Company include cash and cash equivalents and financial assets held under reverse repurchase agreements which accounts for 13.40%, 10.79%, 6.63% and 7.73% of total assets of the Group respectively. The Group's cash flow interest rate risk exposures from holding these assets are not significant.

As at 31 May 2017, the Company's main interest bearing liability includes a RMB300 million short-term borrowing from China Trust Protection Fund Co., Ltd., which amounted to 8.31% of total liabilities of the Group (31 December 2014 and 2015: Nil; 31 December 2016: RMB500 million, amounted to 21.67% of total liabilities of the Group).

The Group also invests in certain financing trust schemes established and managed by itself. The underlying assets of these financing trust schemes are mainly loans to customers which are priced at fixed rate through their maturities. The investors of these trust schemes including the Group are entitled to an expected investment return at a fixed rate throughout the whole investment period. The Group is not subject to significant risk from the volatility of market interest rate or changes in benchmark interest rate.

39.2.4 Foreign exchange risk

The Group's business is mainly operated in PRC and settled in RMB. The Group has performed analysis and concluded that the foreign exchange risk is not material.

39.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group forecasts its cash flows and monitors the short-term and long-term capital need to ensure it has sufficient cash reserve and securities that are readily convertible to cash. The Group holds sufficient unrestricted cash at bank and on hand to satisfy the capital need for the daily operations. The Group has a short-term borrowing from China Trust Protection Fund Co., Ltd. amounting to RMB300 million as disclosed in Note 32.

The majority of the Group's financial liabilities on the consolidated statement of financial position are amount attributable to other beneficiaries of the trusts as a result of consolidating these trusts by the Group. The Company has no contractual obligation to provide any liquidity support to all of the trust schemes established and managed by itself. Management is of the view that the Group is not subject to significant liquidity risk given the nature of its business activities.

39.4 Capital management

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

The Company prudently determines the objectives of net capital and risk-based capital management which meet the regulatory requirements and are in line with its own risk exposure. Generally, the measures of capital management includes 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 CBRC. Effective from 20 August 2010, the Company started to implement the CBRC's regulation of "Measures for the Administration of Net Capital of Trust Companies" which was issued on the same day. Pursuant to this regulation, a trust company shall maintain its net capital at a level of no less than RMB200 million, the ratio of net capital to total risk-based capital at no less than 100%, and the ratio of net capital to net asset at no less than 40%. The Company reports the required capital information to the CBRC on a quarterly basis. Total risk-based capital is defined as the sum of (i) risk-based capital of our proprietary business; (ii) risk-based capital of our trust business, and (iii) risk-based capital of our other business, if any. The risk-based capital is calculated by applying a risk factor which ranges from 0% to 50% for our proprietary business, and 0.1% to 9.0% for our trust business.

39.5 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: cash and bank balance, financial assets purchased under agreements to resell, loans to customers, investments classified as loans and receivables, other assets, short-term borrowings, net assets attributable to other beneficiaries of consolidated structured entities, and other payables. As of 31 December 2014, 2015 and 2016 and 31 May 2017, their fair value approximate carrying amounts.

(c) Financial instruments measured at fair value

31 December 2014

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
– Listed shares	37,992	–	–	37,992
– Mutual funds	244,767	–	–	244,767
– Financial assets held by certain consolidated structured entities	120,307	–	–	120,307
Available-for-sale financial assets				
– Listed shares	110,868	–	–	110,868
– Mutual funds	411,030	–	–	411,030
– Equity investments	–	–	583,444	583,444
– Asset management products	–	–	100	100
– Trust schemes	–	–	30,521	30,521
Total	<u>924,964</u>	<u>–</u>	<u>614,065</u>	<u>1,539,029</u>

31 December 2015

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
– Listed shares	49,694	–	–	49,694
– Mutual funds	194,808	–	–	194,808
– Financial assets held by certain consolidated structured entities	148,822	–	–	148,822
Available-for-sale financial assets				
– Listed shares	120,934	–	–	120,934
– Mutual funds	639,111	–	–	639,111
– Equity investments	–	–	360,124	360,124
– Asset management products	–	–	7,284	7,284
– Trust schemes	–	–	179,140	179,140
– Trust Industry Protection Fund	–	–	43,495	43,495
Total	1,153,369	–	590,043	1,743,412

31 December 2016

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
– Listed shares	25,673	–	–	25,673
– Mutual funds	48,311	–	–	48,311
– Financial assets held by certain consolidated structured entities	181,491	–	50,000	231,491
Available-for-sale financial assets				
– Listed shares	8,776	33,632	–	42,408
– Mutual funds	262,629	–	–	262,629
– Equity investments	–	–	347,718	347,718
– Asset management products	–	–	155,646	155,646
– Trust Industry Protection Fund	–	–	57,800	57,800
Total	526,880	33,632	611,164	1,171,676

31 May 2017

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
– Listed shares	21,411	–	–	21,411
– Mutual funds	84,053	–	–	84,053
– Equity investment in an unlisted company	–	–	20,000	20,000
– Financial assets held by certain consolidated structured entities	269,194	–	–	269,194
Available-for-sale financial assets				
– Listed shares	8,060	24,178	–	32,238
– Mutual funds	231,979	–	–	231,979
– Equity investments	–	–	377,377	377,377
– Asset management products	–	–	158,209	158,209
– Trust Industry Protection Fund	–	–	72,313	72,313
Total	614,697	24,178	627,899	1,266,774

During the Track Record Period, the Group did not reclassify the financial instruments among different levels.

(i) *Financial instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. Instruments included in Level 1 comprise primarily exchange traded equity investments and mutual funds classified as trading securities or available-for-sale.

(ii) *Financial instruments in Level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(iii) Financial instruments in Level 3

The following tables present the changes in Level 3 instruments for the years ended 31 December 2014, 2015 and 2016 and five months ended 31 May 2017.

	Available-for-sale financial assets
	RMB'000
1 January 2014	360,029
Purchase	30,000
Sell	(52,593)
Gains and losses recognised in the investment income of profit or loss	6,766
Gains and losses recognised in other reserve	269,863
31 December 2014	614,065
Unrealised gains or (losses) recognised in profit or loss attributable to assets held at the end of the year (included in gains/(losses) disclosed above)	—
	Available-for-sale financial assets
	RMB'000
1 January 2015	614,065
Purchase	198,494
Sell	(10,100)
Gains and losses recognised in the investment income of profit or loss	(2,610)
Gains and losses recognised in other reserve	(209,806)
31 December 2015	590,043
Unrealised gains or (losses) recognised in profit or loss attributable to assets held at the end of the year (included in gains/(losses) disclosed above)	—

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
1 January 2016	–	590,043	590,043
Purchase	50,000	164,456	214,456
Sell	–	(189,140)	(189,140)
Gains and losses recognised in the investment income of profit or loss	–	(1,389)	(1,389)
Gains and losses recognised in other reserve	–	(2,806)	(2,806)
31 December 2016	<u>50,000</u>	<u>561,164</u>	<u>611,164</u>
Unrealised gains or (losses) recognised in profit or loss attributable to assets held at the end of the year (included in gains/(losses) disclosed above)	<u>–</u>	<u>–</u>	<u>–</u>
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
1 January 2017	50,000	561,164	611,164
Purchase	–	19,512	19,512
Sell	(30,000)	(10,000)	(40,000)
Gains and losses recognised in the investment income of profit or loss	–	3,375	3,375
Gains and losses recognised in other reserve	–	33,848	33,848
31 May 2017	<u>20,000</u>	<u>607,899</u>	<u>627,899</u>
Unrealised gains or (losses) recognised in profit or loss attributable to assets held at the end of the year (included in gains/(losses) disclosed above)	<u>–</u>	<u>–</u>	<u>–</u>

Description	Fair value at 31 December 2014	Valuation technique(s)	Unobservable input	Range
RMB'000				
Available-for-sale financial assets				
– Equity investments	572,934	Market comparable companies	Discount for lack of marketability (i) P/B multiple (ii)	52%–58% 3.06–4.40
Description	Fair value at 31 December 2015	Valuation technique(s)	Unobservable input	Range
RMB'000				
Available-for-sale financial assets				
– Equity investments	223,534	Market comparable companies	Discount for lack of marketability (i) P/B multiple (ii)	47.05% 2.44
Description	Fair value at 31 December 2016	Valuation technique(s)	Unobservable input	Range
RMB'000				
Available-for-sale financial assets				
– Equity investments	212,341	Market comparable companies	Discount for lack of marketability(i) P/B multiple(ii)	35%–68% 1.71–2.29
Description	Fair value at 31 May 2017	Valuation technique(s)	Unobservable input	Range
RMB'000				
Available-for-sale financial assets				
– Equity investments	368,080	Market comparable companies	Discount for lack of marketability(i) P/B multiple(ii)	44.45%–45.20% 1.51–2.33

Notes:

- (i) Represents amounts used when the Group has determined that market participants take into account these discounts when pricing the investments.
- (ii) Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments.

As at 31 December 2014, 2015 and 2016 and 31 May 2017, the remaining investments categorised in Level 3 with fair value of RMB41,131 thousand, RMB366,509 thousand, RMB398,823 thousand and RMB259,819 thousand respectively were valued based on unobservable inputs such as net assets value of portfolio investments.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the directors of the Company in respect of any period subsequent to 31 May 2017 and up to the date of this report. Save as disclosed in Note 30, no dividend or distribution has been declared or made by the Company in respect of any period subsequent to 31 May 2017.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 May 2017 and based on the audited consolidated net tangible assets of our Company as of 31 May 2017 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, an adjusted as described below.

This unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 May 2017 or at any future date.

	Audited Consolidated Net Tangible Assets of the Group Attributable to Shareholders of the Company as at 31 May 2017	Estimated Net Proceeds from the Global Offering	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Shareholders of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share	
	Note 1 RMB'000	Note 2 RMB'000	RMB'000	Note 3 RMB	Note 3 HK\$
Based on an Offer Price of					
HK\$4.46 per share	6,480,603	2,125,535	8,606,138	3.33	3.92
Based on an Offer Price of					
HK\$5.43 per share	6,480,603	2,597,003	9,077,606	3.51	4.13

Notes:

- The audited consolidated net tangible assets attributable to the owners of the Company as at May 31, 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group as at May 31, 2017 of RMB6,484,547,000 with an adjustment for the intangible assets as at May 31, 2017 of RMB3,944,000.

2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$4.46 and HK\$5.43 per H Share after deduction of the underwriting fees and other related expenses (excluded VAT) paid or payable by us (excluding listing expenses of approximately RMB2,177,000 which have been accounted for in the consolidated statement of comprehensive income prior to May 31, 2017).
3. The unaudited pro forma adjusted net tangible assets per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis of 2,588,250,000 Shares are in issue assuming that the Global Offering have been completed on May 31, 2017, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be allotted, issued or repurchased by the Company pursuant to the general mandate.
4. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2017.
5. For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.18. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Shandong International Trust Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shandong International Trust Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 May 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 and II-2 of the Company's prospectus dated 28 November 2017, in connection with the proposed initial public offering of H shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on page II-1 and II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 May 2017 as if the proposed initial public offering had taken place at 31 May 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the period ended 31 May 2017, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 May 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

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

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

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
28 November 2017

TAXATION

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares. Accordingly, you should consult your tax adviser regarding the tax consequences of an investment in the H Shares. The following summary is based upon laws and relevant interpretations in effect as of the Latest Practicable Date, all of which are subject to change.

The PRC

Dividends

Individual investors

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) (“IIT Law”), as amended, and its implementation rules, dividends paid by PRC companies are generally subject to a PRC withholding tax at a flat rate of 20%.

Pursuant to the Notice on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (國家稅務總局關於國稅發 [1993] 045 號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) issued by the SAT on June 28, 2011, if a domestic non-foreign-invested enterprise issues its shares in Hong Kong, its non-PRC resident individual shareholders may be entitled to preferential tax treatments in accordance with the applicable tax treaties between the PRC and the countries in which they are tax residents and the applicable tax arrangements between the Mainland China and Hong Kong (Macau). In general, the distribution of applicable dividends by a domestic non-foreign-invested enterprise whose shares are issued and listed in Hong Kong is subject to a withholding individual income tax of 10% and there is no need to apply to the tax authorities in the PRC to qualify for this rate. If the tax rate specified in the relevant tax treaty or arrangement is lower than 10%, an individual shareholder who receives dividends may apply for a refund of the excess amount withheld, subject to an approval of the competent tax authority. In accordance with the PRC laws, if an individual shareholder is a resident of a country which has entered into a tax treaty with the PRC and the agreed tax rate is higher than 10% but lower than 20%, his dividend will be subject to income tax at the agreed tax rate. If an individual shareholder is a resident of a country which has not entered into a tax treaty with the PRC, his dividend will be subject to income tax at a tax rate of 20%. The company will withhold tax from any dividend payment at an applicable tax rate (which can be higher than 10% if the relevant individual shareholders and the tax rate applicable to such shareholder can be identified by the company).

Enterprises

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (“EIT Law”), and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), both effective on January 1, 2008, a non-resident enterprise is generally subject to a 10% enterprise income tax on the PRC-sourced income, if such non-resident enterprise does not have an organization or premises in the PRC or has an organization or premises in the PRC but the PRC-sourced income is not connected with such organization or premises in the PRC, subject to any applicable treaties for the avoidance of double taxation. The aforesaid income tax payable by the non-resident enterprises shall be withheld at source, for which the payer thereof shall be the withholding agent. When making such payment or when such payment becomes due and payable, the withholding agent shall withhold the income tax from the payment or the payment becoming due and payable.

Notice on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders (國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No. 897) issued by the SAT on November 6, 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to Non-PRC Resident Enterprise shareholders of H Shares which are derived out of profit generated since January 1, 2008. A Non-PRC Resident Enterprise shareholder which is entitled to a preferential tax rate under a tax agreement or an arrangement may, directly or through its entrusted agent or withholding agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld. The Reply of the State Administration of Taxation on Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆) (Guo Shui Han [2009] No. 394) issued by the SAT on July 24, 2009 further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends that it distributes to Non-PRC Resident Enterprise shareholders. Such tax rate may be modified pursuant to the tax treaty or agreement that the PRC has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止漏稅的安排) signed on August 21, 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident (including specified natural person and legal entity) by a PRC company, but such tax generally does not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a PRC company, such tax does not exceed 5% of the total amount of dividends payable by that PRC company.

Tax Treaties

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau may be entitled to a preferential treatment of such withholding tax in respect of dividends received from the PRC company. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, UK and US. A Non-PRC Enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement shall apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and the amount payable at an agreed rate, subject to the approval of the PRC tax authorities.

Taxes Related to Share Transfer*Individual investors*

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares (財政部、國家稅務總局關於個人轉讓股票所得繼續免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, income of individuals from the transfer of shares of listed enterprises was still exempted from individual income tax. After the latest amendment to the IIT Law on June 30, 2011 and its implementing rules amended on July 19, 2011 and implemented on September 1, 2011, the SAT has not explicitly stated whether it will continue to exempt individual income tax on income derived by individuals from the transfer of listed shares. However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (財政部、國家稅務總局、證監會關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges generally will continue to be exempted from the individual income tax, except for the shares of certain specified companies which are subject to sales limitations (as defined in the supplementary notice of such Circular issued on November 10, 2010). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not levied income tax on non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H Shares.

Enterprises

In accordance with the EIT Law and its implementation rules, a Non-PRC Resident Enterprise is generally subject to enterprise income tax at a rate of 10% with respect to the PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premises in the PRC or has an organization or premises in the PRC but the PRC-sourced income is not connected with such organization or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties.

Shanghai-Hong Kong Stock Connect Taxation Policy

On October 31, 2014, the MOF, SAT and CSRC jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong (財政部、國家稅務總局、證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2014] No. 81) (hereinafter as “Shanghai-Hong Kong Stock Connect Taxation Policy”) which clarified the relevant taxation policy under Shanghai-Hong Kong Stock Connect.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect from November 17, 2014 to November 16, 2017. Business tax will be temporarily exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Hong Kong Stock Exchange by mainland individual investors through Shanghai-Hong Kong Stock Connect. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by H-share companies at the tax rate of 20%; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by China Securities Depository and Clearing Co., Ltd (“CSDC”) at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of CSDC by producing the tax credit document.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, enterprise income tax will be levied according to law on transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect. Business tax will be exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by investors of mainland entities through Shanghai-Hong Kong Stock Connect. Enterprise income tax will be levied according to law on dividend income (included in total income) obtained by mainland corporate investors from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong

Kong Stock Connect. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-share companies will not withhold dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Hong Kong Stock Exchange.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, mainland investors who transfer shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDC and HKSCC may collect the abovementioned stamp duty on each other's behalf.

Shenzhen-Hong Kong Stock Connect Tax Policies

On November 25, 2016, CSRC and SFC granted their approvals to Shenzhen Stock Exchange, the Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited and HKSCC for formal launch of the Shenzhen-Hong Kong Stock Connect. Trading in shares under the Shenzhen-Hong Kong Stock Connect kicked off on 5 December 5, 2016.

Pursuant to the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program: From December 5, 2016 to December 4, 2019, gains on price difference from transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are temporarily exempt from individual income tax. Gains on price difference from transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are subject to 20% of withholding individual income tax by H shares companies. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under China Securities Depository and Clearing Company Limited for tax credit. Dividends derived by mainland securities investment funds through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are subject to individual income tax pursuant to provisions above.

Gains on dividends derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Among them, dividends derived by mainland resident enterprises for

holding H shares up to 12 consecutive months are exempt from corporate income tax in accordance with laws. For such dividends derived by mainland enterprises, there will be no withholding tax on dividends payable by H shares companies, and these enterprises are liable for tax reporting and payment. For the withholding tax on dividends payable by companies of non-H shares listed on the Hong Kong Stock Exchange, mainland corporate investors can apply for tax credit when reporting and paying corporate income tax.

Mainland investors, who deal with, inherit, and are bestowed upon with shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are subject to stamp duties in accordance with current taxation requirements in Hong Kong. China Securities Depository and Clearing Company Limited and HKSCC are authorized to levy stamp duties above on behalf of each other.

PRC stamp duty

Under the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) amended on January 8, 2011 and the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例實施細則), effective on October 1, 1988, PRC stamp duty does not apply to acquisitions or dispositions of H Shares outside of the territory of the PRC, as the PRC stamp duty is imposed on documents that are legally binding in the PRC and protected by PRC laws.

Estate duty

The PRC does not collect estate duty so far.

Business tax

According to the PRC Provisional Regulations on Business Tax (中華人民共和國營業稅暫行條例) amended on November 10, 2008 and implemented on January 1, 2009, enterprises and individuals that provide labor services, transfer intangible assets or sell real estate within the territory of the PRC as specified by such regulations are subject to business tax. The business tax rate applicable to financial and insurance companies is 5%.

Pursuant to the Pilot Scheme for the Conversion of Business Tax to VAT (營業稅改增值稅試點方案) (Cai Shui [2011] No. 110) promulgated by the MOF and the SAT on November 16, 2011, since January 1, 2012 the State started to introduce taxation reform in certain service industries (namely transportation and certain modern service industries) which are subject to business tax in a gradual manner, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in certain regions including Shanghai and Beijing. The MOF and the SAT further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide since August 1, 2013.

Pursuant to the Notice on Comprehensively Promoting the Pilot Program of Levying Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知 (財稅[2016]36號)) promulgated by the MOF and the SAT on March 23, 2016, starting from May 1, 2016, the VAT pilot program will be extended to the whole country. Business tax payers in the industries of construction, real estate, financial and consumer service will be included into the scope of the VAT pilot program.

Pursuant to the Implementing Measures for the Pilot Practice of Levying of Value-Added Tax in Lieu of Business Tax (營業稅改征增值稅試點實施辦法) promulgated by the MOF and the SAT on March 23, 2016 and became effective on May 1, 2016, enterprises and individuals engaged in sales of services, intangible assets or immovable properties shall be subject to value-added tax in lieu of business tax based on the various types of business they conduct.

Pursuant to the Notice on Clarifying Value-added Tax Policies on Finance, Real Estate Development and Education Assisted Services (關於明確金融、房地產開發、教育輔助服務等增值稅收政策的通知) promulgated by the MOF and the SAT on December 21, 2016, taxpayer's purchasing various asset management products such as funds, trusts and wealth management products and holding them to maturity shall not be identified as the "transfer of financial products" stipulated in Cai Shui [2016] No. 36. For the value-added tax taxable transactions produced during the operation process of the asset management products, the manager of the asset management products shall be the taxpayer of the value-added tax. The aforementioned provisions came into effect on May 1, 2016.

According to the Supplemental Notice on Certain Issues in relation to Value-Added Tax Policies on Asset Management Products (關於資管產品增值稅政策有關問題的補充通知) promulgated by the MOF and the SAT on January 6, 2017, starting from July 1, 2017 (inclusive), for the value-added tax taxable transactions produced during the operation process of the asset management products, the manager of the asset management products shall be the taxpayer of the value-added tax and pay the value-added tax pursuant to the prevailing rules. For the value-added tax taxable transactions produced during the operation process of the asset management products before July 1, 2017, it is not required to pay the unpaid value-added tax; if the value-added taxes are paid, the paid taxes shall be deducted from the value-added tax to be paid by the manager of the asset management products afterwards.

According to the Notice on Certain Issues in relating to Value-Added Tax Policies on Asset Management Products (關於資管產品增值稅有關問題的通知) promulgated by the MOF and the SAT on June 30, 2017 which will take effect on January 1, 2018, a manager (such as a trust company) of asset management products (such as trusts) shall separately calculate the sales revenue and the amount of VAT payable of its business of operating asset management products and other business. VAT-taxable acts committed by a manager of asset management products during the operation of asset management products shall, for the time being, be governed by the method of simplified VAT taxation, and be subject to VAT at the levy rate of 3%; VAT shall be paid pursuant to prevailing provisions on the other

services provided by a manager of asset management products. For the value-added tax taxable transactions produced during the operation process of the asset management products before January 1, 2018, it is not required to pay the unpaid value-added tax; if the value-added taxes are paid, the paid taxes shall be deducted from the value-added tax to be paid by the manager of the asset management products afterwards.

Hong Kong

Tax on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate on unincorporated businesses of 15%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of H Shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

There is no taxation in the nature of estate duty in Hong Kong.

FOREIGN EXCHANGE CONTROLS IN THE PRC

Renminbi is the lawful currency of the PRC, which is subject to foreign exchange controls. The SAFE, under the authorization of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In accordance with the Notice on Deepening the Reform of the Foreign Exchange Administration System (關於進一步改革外匯管理體制的通知) (Guo Fa [1993] No. 89), since January 1, 1994, current account items applied to the policy of conditional exchange of Renminbi. The official exchange rate and the market rate for Renminbi were unified. The unified Renminbi exchange rate applied to a single, controlled floating exchange rate system based on market demand and supply. The PBOC published the Renminbi to other main currencies exchange rate on daily basis by reference to the change of international foreign exchange market. Foreign exchange buying and selling between designated foreign exchange banks and their clients are allowed within the limit of floating exchange rates.

On January 29, 1996, the State Council promulgated the Regulations of the People's Republic of China for the Control of Foreign Exchange (中華人民共和國外匯管理條例) (the "Foreign Exchange Control Regulations") which became effective from April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are not subject to SAFE approval while capital account items are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amended Foreign Exchange Control Regulations clarifies that the State does not impose restrictions on international payments and transfers under the current account items.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (Yin Fa [1996] No. 210) (the "Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolish all other restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On October 25, 1998, the PBOC and the SAFE jointly promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (關於停辦外匯調劑業務的通知), pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that, effective on the same date, the PRC would implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and with reference to a basket

of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each trading day, and will fix the central parity for Renminbi transaction on the following trading day.

On August 5, 2008, the State Council promulgated the revised Regulations of the People's Republic of China for the Control of Foreign Exchange (中華人民共和國外匯管理條例) (the "Revised Foreign Exchange Control Regulations"), which have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Revised Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Revised Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and grant extensive authority to the SAFE to strengthen its supervisory and administrative ability.

Pursuant to relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example, foreign exchange income received by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks and can be deposited into foreign exchange accounts at the designated foreign exchange banks.

The PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of the SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises (like us) which, in accordance with regulations, are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

On December 26, 2014, SAFE issued the Notice of SAFE on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知), which came into effect on the day of issuance. Except that banks and insurance companies of which the repatriation and settlement of foreign exchange received from overseas listing are subject to other regulations, the foreign exchange of an overseas listed domestic financial institution shall be administrated in accordance with the SAFE Notice. The SAFE Notice provides that:

- SAFE and its branches and Administrative Department of Foreign Exchange (“FE”) supervise, manage and examine the business registration, account opens and its use, the cross-border income and expenses, capital exchange for the local enterprises listed overseas.
- a domestic issuer shall, within 15 working days after the completion of the initial offering of shares for its overseas listing, register overseas listing with the Foreign Exchange Bureau at the place of its incorporation with related materials.
- After overseas listing, a domestic shareholder intending to increase or reduce his holding of overseas shares of the listed company shall register his shareholding with the local Foreign Exchange Bureau at the place where he resides within 20 working days before the increase and reduction of shares with related materials.
- a domestic issuer (except for bank financial institutions) shall present his certificate of overseas listing to open a special account with a local bank for overseas listing of local enterprises to handle corresponding capital exchange and transfer for its business for its initial offer (or enhancement) or repurchase.
- a domestic issuer may transfer the capital raised through overseas listing to its local bank account or deposit at its overseas account. The use of proceeds shall be consistent with the purposes disclosed in the prospectus or other public documents such as the offering circular of corporate bonds, circular to shareholders and resolutions of meetings of the board of directors or shareholders’ general meeting.

The Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (“Guo Fa [2014] No. 50”, 國務院關於取消和調整一批行政審批項目等事項的決定), which was issued and became effective on October 23, 2014, cancelled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

Pursuant to the Circular on Further Simplifying and Improving Direct Investment Foreign Exchange Administration Policies (“Hui Fa [2015] No. 13”, 國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) which was issued by the SAFE and implemented on February 13, 2015 and June 1, 2015 respectively, two administrative approvals were abolished, namely the foreign exchange registration approval under the PRC direct investment and the foreign exchange registration approval under the oversea direct investment. Parts of direct investment foreign exchange business procedure were further simplified.

This Appendix contains a summary of PRC company and securities laws and regulations, certain material differences between the PRC Company Law and the Companies Ordinance and additional regulatory provisions introduced by the Stock Exchange in relation to PRC joint stock limited companies. The principal objective of this summary is to provide potential investors with an overview of the principal legal and regulatory provisions applicable to us. As the information contained below is in a summary form, it does not contain all the information that may be important to potential investors. For discussions of laws and regulations specifically governing our business activities, see “Regulatory Overview”.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (中華人民共和國憲法) (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Although court verdicts do not constitute binding precedents, they may be used for the purposes of judicial reference and guidance.

According to the Constitution of the PRC and the Legislation Law of the PRC (中華人民共和國立法法), the National People’s Congress (the “NPC”) and the Standing Committee of the National People’s Congress are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the National People’s Congress is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the National People’s Congress during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people’s congresses of municipalities with subordinate districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual requirements of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are

separate provisions by law on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions.

The ministries and commissions, PBOC, NAO of the State Council, and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people's governments of the provinces, autonomous regions, and municipalities directly under the central government and municipalities with subordinate districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the National People's Congress. According to the Decision of the Standing Committee of the National People's Congress Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. In cases where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which have enacted these regulations shall provide the interpretations or make the stipulations. Questions involving the specific application of local regulations shall be interpreted by the competent departments under the people's governments of provinces, autonomous regions and municipalities.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organization of the People's Courts (中華人民共和國人民法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are comprised of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts are organized into civil, criminal, administrative, supervision and enforcement divisions. The intermediate people's courts are organized into divisions similar to those of the primary people's courts, and are entitled to organize other courts as needed such as the intellectual property division.

The higher level people's courts supervise the primary and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the judicial administration of the people's courts at all levels.

The people's courts apply a two-tier appellate system. A party may appeal against a judgment or order of a local people's court to the people's court at the next higher level. Second judgments or orders given at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. However, if the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The PRC Civil Procedure Law (中華人民共和國民事訴訟法), which was adopted in 1991 and amended in 2007, 2012 and 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to,

an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or against social and public interest.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following three laws and regulations in China:

- PRC Company Law, which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised as of December 25, 1999, August 28, 2004, December 27, 2005 and December 28, 2013 respectively and the latest revision of which was implemented on March 1, 2014;
- the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited 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) (referred to as the "Special Regulations"), which was promulgated by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the PRC Company Law, and was applicable, to the overseas share subscription and listing of joint stock limited companies; and
- 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) (referred to as the "Mandatory Provisions"), which was jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on August 27, 1994, and stated the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in Appendix V of this listing document.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A state-owned enterprise (“SOE”) that is reorganized into a joint stock limited company shall comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the disposal and valuation of the company’s assets and liabilities and the establishment of internal management organizations.

A joint stock limited company shall conduct its business in accordance with laws and professional ethics. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A joint stock limited company may be incorporated by promotion or public subscription.

A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. According to the Special Regulations, SOEs or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

According to the PRC Securities Law, the total capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the Company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All

resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations on the Administration of Share Issuance and Trading (股票發行與交易管理暫行條例) promulgated by the State Council on April 22, 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on the prospectus to ensure that the prospectus does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as "overseas listed and foreign invested shares". Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known as "domestic shares". Upon approval of the securities regulatory authority of the State Council, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the PRC Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items or assets, intellectual property rights, and land use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares issued shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Under the PRC Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the PRC Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders' general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement and end of the new share issuance and the class and amount of new shares to be issued to existing shareholders. When the company launches a public issuance of new shares with the approval of the securities regulatory authorities of the State Council, it shall publish a prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a shareholders' general meeting;

- it shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts; and
- it shall apply to the relevant Industry and Commerce Administration for the registration of the reduction in registered capital.

Repurchase of Shares

According to the PRC Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with another company that holds its shares; (iii) to grant its shares to its employees as incentives; and (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting.

The purchase of shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by the shareholders' general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within ten days from the date of purchase in the case of (i) above and transferred or cancelled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the company's issued shares. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the company's employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the PRC Company Law, transfer of shares by shareholders shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No modifications of registration in the share register caused by transfer of registered shares shall be carried out within 20 days prior to the convening of shareholders' general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on alternation of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within 30 days prior to convening of shareholders' general meeting or five days prior to any base date for determination of dividend distributions.

Under the PRC Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and senior management shall declare to the company that their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from their positions with the company.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote there at;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's operations;
- the right to bring an action in the people's court to rescind resolutions passed by shareholders' general meetings and board of directors where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

Under the PRC Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the PRC Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;

- the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the board of supervisors so requests; or
- other circumstances as provided for in the articles of associations.

Under the PRC Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairperson of the board of directors. In the event that the chairperson is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairperson. In the event that the vice chairperson is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary shareholders' general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the registered shareholders 45 days in advance to the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, shareholders' general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. If this is not attained, the company shall within five days notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders in the form of public announcement. The company may convene the shareholders' general meeting after such

public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes shareholders' annual general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholders' general meeting shall be placed in the agenda of the meeting.

Under the PRC Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of director or supervisor to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the PRC Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-third of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any types of shares, warrants or other similar securities; (iv) the issue of debentures; (v) the merger, division, dissolution, liquidation or change in the form of the company; (vi) other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairperson of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed by shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

Board Meetings

Under the PRC Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. The chairperson shall convene and preside over such meeting within ten days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the PRC Company Law, the board of directors shall appoint a chairperson and may appoint a vice chairperson. The chairperson and the vice chairperson are elected with approval of more than half of all the directors. The chairperson shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairperson shall assist the work of the chairperson. In the event that the chairperson is incapable of performing or not performing his duties, the duties shall be performed by the vice chairperson. In the event that the vice chairperson is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of Directors

The PRC Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation;
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Board of Supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The board of supervisors shall appoint a chairperson and may appoint vice chairperson. The chairperson and the vice chairperson of the board of supervisors are elected with approval of more than half of all the supervisors. The chairperson of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairperson of the board of supervisors is incapable of performing or not performing his duties, the vice chairperson of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairperson of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The board of supervisors exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting under this law;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management; and
- other powers specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of Board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and Senior Management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to supervise the business and administration of the company and arrange for the implementation of resolutions of the board of directors;

- to arrange for the implementation of the company's annual business plans and investment proposals;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

The manager shall comply with other provisions of the articles of association concerning his/her powers. The manager shall attend board meetings.

According to the PRC Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and have the fiduciary and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favor of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;

- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accept and possess commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential business information of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Finance and Accounting

Under the PRC Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the PRC Company Law, the company shall deliver its financial reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. It must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall employ an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from their appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Distribution of Profits

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve is drawn. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares.

Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the shareholders' general meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business license is revoked; the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, it may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;

- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within ten days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abuse of their powers to accept bribes or other unlawful income and from misappropriating the company's properties.

A member of the liquidation group is liable to indemnify the company and its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed and foreign invested shares and domestic listed domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issue within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information of the Company. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

The Provisional Regulations on the Administration of Share Issuance and Trading deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on July 1, 1999 and was revised on August 28, 2004, October 27, 2005 and August 31, 2014, respectively. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises shall obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) (referred to as the "Arbitration Law") passed by the Standing Committee of the NPC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer and, in the case of the Listing Rules, also in contracts between the issuer and each of its directors and supervisors, to the effect that any disputes or claims arising (i) between holders of shares and the issuer; (ii) between holders of shares and the issuer's directors, supervisors, manager or other senior management; and (iii) between holders of shares and holders of domestic shares may be referred to arbitration for resolution. Matters in arbitration include any disputes or claims in relation to the issuer's affairs or as a result of any rights or obligations arising under its articles of association, the PRC Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Center (“HKIAC”) in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC. In accordance with the new Arbitration Regulations of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會仲裁規則) implemented on January 1, 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The CIETAC is established in Beijing and its branches and centers have been set up in Shenzhen, Shanghai, Tianjin and Chongqing.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

On June 18, 1999, the Arrangement on the Mutual Enforcement of Arbitration Award between the Mainland and the Hong Kong Special Administrative Region (關於內地與香港特別行政區相互執行仲裁裁決的安排) was reached between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards, and the arrangement became effective on February 1, 2000. In accordance with this arrangement,

awards made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in China.

OVERSEAS INVESTMENT REGULATIONS

Pursuant to the Regulations on the Administration of Overseas Investment (境外投資管理辦法) promulgated by the MOFCOM on September 6, 2014 which became effective on October 6, 2014, enterprises engaged in overseas investment as stipulated in the Regulation shall report to the commerce authority for filing or approval.

Pursuant to Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (境內機構境外直接投資外匯管理規定) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments with the foreign exchange administrative authorities.

Pursuant to the Administrative Measures on Approval and Filing of Overseas Investment Projects (境外投資項目核准和備案管理辦法) promulgated by the NDRC on April 8, 2014 which became effective on May 8, 2014, any overseas investment project with a domestic investment of US\$1 billion or above shall be subject to an approval of the NDRC. Any overseas investment project involving sensitive country or region and sensitive industry, irrespective of the limit of investment amount, shall be subject to an approval of the NDRC. Other overseas investment projects shall be subject to the filing procedures. Under the circumstances, with regard to any overseas investment project with a domestic investment of US\$2 billion or above and involving sensitive country or region and sensitive industry, the NDRC shall put forward the examination and verification opinion thereon and report the same to the State Council for approval. Any change with respect to the investor or the equity holding in the approved projects shall be applied with the NDRC.

ANTI-MONEY LAUNDERING REGULATIONS

The Anti-money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including supervision over anti-money laundering, formulation of rules and regulations regarding anti-money laundering activities of financial institutions, monitoring and inspection of the anti-money laundering practice of financial institutions and investigations on suspicious transactions within their respective scope of authority. The persons in charge of the financial institutions shall be responsible for the effective implementation of internal control system regarding anti-money laundering. Financial institutions shall establish a client identification system and a system for keeping clients' identity information and transaction records according to the requirements, and implement a report system for transactions involving large sums of money and for dubious transactions according to the requirements.

Pursuant to the Provisions on Financial Institutions Anti-money Laundering (金融機構反洗錢規定) promulgated by the PBOC which became effective on January 1, 2007, financial institutions and their branches are required to establish a comprehensive internal control system for anti-money laundering, and set up a special anti-money laundering department or designate an internal department to implement the anti-money laundering measures, formulate internal anti-money laundering policies and procedures and organize anti-money laundering training for staff to enhance their anti-money laundering capability.

Pursuant to the Administrative Measures of Client Identification and Identity Materials and Transaction Recording of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) promulgated jointly by the PBOC, CBRC, CSRC and CIRC which became effective on August 1, 2007, financial institutions are required to establish a client identification system, maintain records for the identities and relevant transactions of all clients and keep all retail transaction documents and record books.

Pursuant to the Administrative Measures on Reporting Large and Doubtful Transactions in Financial Institutions (金融機構大額交易和可疑交易報告管理辦法) promulgated by the PBOC on November 14, 2006, amended on December 28, 2016 and effective from July 1, 2017, upon the detection of any transactions involving large sums of money or dubious transactions, the head office or the designated department of the financial institutions shall electronically report such transactions to the China Anti-money Laundering Monitoring and Analysis Center.

Summary of Material Differences between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and supplemented by common law and the rules of equity that apply to Hong Kong. As a joint stock limited liability company established in the PRC that is seeking a listing of H Shares on the Stock Exchange, we are governed by the PRC Company Law and all the rules and regulations promulgated pursuant to the PRC Company Law.

In the following sections, we summarize certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong and upon its incorporation, the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. The articles of association of a public company do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. The amended PRC Company Law which came into effect on March 1, 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case a company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, a company may state in its articles of association the maximum number of shares that it may issue. If a maximum number of shares is stated, the company is not bound to issue the entire amount, and therefore the maximum number of shares it may issue may be larger than its issued share capital. In this case, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. The PRC Company Law does not provide for a maximum number of shares to be issued. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and must be in compliance with provisions stipulated by the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. However, eligible institutional investors

and individual investors may trade Shanghai Stock Exchange securities and the Stock Exchange securities by participating in Shanghai-Hong Kong Stock Connect.

Under the PRC Company Law, our promoters are not allowed to transfer the Shares they hold for a period of one year after the date of our establishment. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company transferred by its directors, supervisors and members of the senior management each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfer of shares in respect of such persons under Hong Kong company law, although certain restrictions apply under the Listing Rules.

Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not prohibit or restrict us from providing financial assistance for the purpose of an acquisition of our Shares, the Mandatory Provisions contain restrictions on a company and its subsidiaries from providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law makes no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Companies Ordinance, rights attached to any class of shares can be varied only (i) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in that class, (ii) with the approval by special resolution passed at a separate general meeting of holders of shares in the class or (iii) if there are provisions in the articles of association for the variation of those rights, then in accordance with those provisions.

We (as required by the Listing Rules and the Mandatory Provisions) have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where:

- the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as at the date of the shareholders' special resolution;
- the plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; or
- upon the transfer of our domestic shares by the holders of our domestic shares to overseas investors and the listing and trading of such transferred shares on an overseas stock exchange, provided that the transfer and trading of such transferred shares shall have obtained the approval of the authorized securities approval authorities of the State Council, including the CSRC. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.

Board of Supervisors

Under the PRC Company Law, a company's directors and managers are subject to the supervision of a Board of Supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be our best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives our shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the Board, that violates any law, administrative rules or articles of association or if the directors, supervisors or senior managers violate laws, administrative rules or articles of association when performing their duties and cause losses to the company. The Mandatory Provisions, however, provide us with certain remedies against the Directors, Supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H Shares on the Stock Exchange and in accordance with our Articles of Association, each of our Directors and Supervisors is required to give an undertaking in favor of us acting as agent for each of our shareholders. This undertaking allows minority shareholders to take action against our Directors and Supervisors when they fail to perform their respective duties.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that if any company encounters any serious difficulty in its operations or management to the extent that the interests of its shareholders would be seriously harmed if the company continues to exist, and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of the issued shares of the company may petition the people's court to dissolve the company. The Mandatory Provisions contain provisions to the effect that a controlling shareholder may not exercise its voting rights (i) to relieve a director or supervisor of his duty to act honestly in the best interests of the company, (ii) to approve the expropriation by a director or supervisor of the company's assets, or (iii) to approve the deprivation by a director or supervisor of specific rights of other shareholders, in each case prejudicial to the interests of the shareholders generally or part of the shareholders of a company.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all our shareholders and

shareholders who wish to attend the meeting must reply in writing no less than 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum period of notice is 21 days for annual general meetings and 14 days for other general meetings.

Quorum for Shareholders' General Meetings

Under Hong Kong law, the quorum for a meeting of a company must be at least two members unless the articles of association of the company otherwise provide. For companies with one member, one member shall constitute a quorum. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that our general meeting may only be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders again by way of a public announcement and we may hold the shareholders' general meeting thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of at least 75% of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of our shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of our shareholders representing more than two thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

We are required under the PRC Company Law to make available at our company for inspection by shareholders our annual financial statements (including but not limited to balance sheet, income statement and other relevant documents) 20 days before our shareholders' annual general meeting. In addition, we must publish our financial statements and our financial statements must be verified by registered accountants. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, directors' report and auditor's report, which are to be laid before the company in its annual general meeting, at least 21 days before such meeting.

We are required under PRC law to prepare our financial statements in accordance with PRC accounting standards. The Mandatory Provisions require that we must, in addition to preparing our accounts according to PRC standards, have our accounts prepared and audited in accordance with international or Hong Kong accounting standards and our financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such information should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives our shareholders the right to inspect our Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The Mandatory Provisions require us to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owed by us in respect of our Shares.

Corporate Reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Sections 673 and 674 of the Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganizations are administratively considered and sanctioned under the PRC Company Law.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre (“HKIAC”) or the China International Economic and Trade Arbitration Commission (“CIETAC”), at the claimant’s choice.

Mandatory Deductions

Under the PRC Company Law, after-tax profits of a company are subject to deductions of the statutory surplus reserve of a company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior manager should be responsible to the company for such damages. In addition, in compliance with the Listing Rules, remedies of the Company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The Company shall not exercise its powers to forfeit any unclaimed dividend in respect of H Shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers owe a fiduciary duty towards their company and are not permitted to engage in any activities which damage the interests of their company or engage in any business similar with their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers may not be registered within 30 days before the date of a shareholders' general meeting or within five days before the record date set for the purpose of distribution of dividends.

Listing Rules

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance adviser

We are required to appoint a compliance adviser acceptable to the Stock Exchange for the period commencing on the Listing Date and ending on the date of publication of our financial results for the first full financial year commencing after the Listing Date, to provide us with professional advice on continuous compliance with the Listing Rules, and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the Company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. It must act as the Company's principal channel of communication with the Stock Exchange if the authorized representatives of the Company are expected to be frequently outside Hong Kong.

Accountant's Report

An accountant's report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards for Business Enterprises. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

Process Agent

We are required to appoint and maintain a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Stock Exchange and must notify the Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time there are existing issued securities of a PRC issuer other than foreign shares (“foreign shares”) which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of more than HK\$10,000,000,000.

Independent non-Executive Directors and Supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

Restrictions on Purchase of our Own Securities

Subject to governmental approvals and the Articles of Association, we may repurchase our own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of our Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Takeovers Code and any similar PRC law of which Directors are aware, if any. Any general mandate given to Directors to repurchase H Shares must not exceed 10% of the total number of our issued H Shares.

Redeemable Shares

We must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of our Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities.

No such approval will be required to the extent that our existing shareholders have by special resolution in general meeting given a mandate to Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares and H Shares as of the date of the passing of the relevant special resolution, or such Shares are issued as part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

Supervisors

The Company is required to adopt rules governing dealings by its supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

The Company is required to obtain the prior approval of its shareholders at a general meeting (at which the relevant supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the Company or its subsidiary: (1) the duration of the service contract may exceed three years; or (2) in order to entitle our Company or any of its subsidiaries to terminate the contract, the service contract expressly requires the Company or any of its subsidiaries to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments of the relevant supervisor or proposed supervisor.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

We may not permit or cause any amendment to our Articles of Association which would cause them to cease to comply with the PRC Company Law, the Mandatory Provisions or the Listing Rules.

Documents for Inspection

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and for copying by our shareholders at reasonable charges the following:

- complete duplicate register of shareholders;
- report showing the state of our issued share capital;
- our latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

Receiving Agents

Under Hong Kong law, we are required to appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owed in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

We are required to ensure that all our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those Shares bearing statements to the following effect, that the acquirer of Shares:

- agrees with us and each shareholder, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with us, each shareholder, Director, Supervisor, manager and other officer and we acting both for the company and for each Director, Supervisor, manager and other officer, agree with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law, the Special Regulations or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- agrees with us and each shareholder that Shares are freely transferable by the holder thereof; and
- authorizes us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

We are required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between Us and Directors, Supervisors and other Senior Managers

We are required to enter into a contract in writing with every Director, Supervisor and other senior manager containing at least the following provisions:

- an undertaking by the Director, Supervisor or other senior manager to us to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Hong Kong Takeovers Code and an agreement that we shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director, Supervisor or other senior manager to us acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the Articles of Association; and
- an arbitration clause which provides that whenever any differences or claims arise from the contract, our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law, the Special Regulations or other relevant laws and administrative regulations concerning affairs between us and our Directors, Supervisors or other senior managers and between a holder of H Shares and a Director, Supervisor or other senior manager, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive.

We are also required to enter into a contract in writing with every Supervisor containing terms substantially similar to those for Directors. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

Subsequent Listing

We must not apply for the listing of our H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

English translation

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

GENERAL

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Stock Exchange may impose additional requirements or make listing of our H Shares subject to special conditions as the Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of our listing. Upon our listing on the Stock Exchange, the provisions of the Hong Kong Securities and Futures Ordinance, the Hong Kong Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to us.

Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

This Appendix contains a summary of our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. Our Articles of Association are available for inspection at the address specified in Appendix VII in “Documents Delivered to the Registrar of Companies and Available for Inspection”.

The Articles of Association and relevant amendments thereto were adopted or authorized by the shareholders in general shareholders’ meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law of the PRC, the Special Regulations, the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, the Guidance on Articles of Association of Listed Company and the Listing Rules, and will be effective on the Listing Date.

This Appendix contains a summary of the Articles of Association of the Company. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors.

The Articles of Association of the Company are available for inspection at the address specified in Appendix VII in “Documents Delivered to the Registrar of Companies and Available for Inspection”.

Classes of Shares

Shareholders holding different types of Shares shall be Shareholders of different classes.

Shareholders of different classes shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations and the Articles of Association.

Shareholders of each class shall rank pari passu in respect of their entitlement to dividends and any other forms of distribution.

Except Shareholders of other types of Shares, Shareholders holding Domestic Shares and Shareholders holding overseas-listed Shares are considered as Shareholders of different classes.

Subject to approval by the securities regulatory authority of the State Council, Shareholders of the Company may arrange for the listing and trading of its unlisted Shares on stock exchange outside the PRC. The listing and trading of the above Shares on the overseas securities exchanges shall comply with the regulatory procedures, rules and requirements of the overseas securities markets. No approval of meeting of class Shareholders is required for the listing and trading of such Shares on stock exchange

outside the PRC. For Shareholders of the Company whose Domestic Shares are permitted to be listed and traded overseas, its class of Shares will be converted to overseas listed Shares.

Directors and Other Management Members

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue the Company's Shares.

The increase in registered capital of the Company shall be proposed by the Board for the approval of the Shareholders' general meeting by way of special resolution and subject to the approval by the competent authority of China.

Power to Dispose of the Assets of the Company

The Board shall only dispose of the Company's assets within the scope of the Shareholders' general meeting's authorization.

The Board shall not, without the prior approval of the Shareholders' general meeting, dispose or agree to dispose of any fixed assets where the aggregate amount of the expected value of the consideration for the proposed disposition and the value of the consideration for any disposition of any fixed assets that has been completed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the fixed assets as shown in the latest balance sheet reviewed by the Shareholders' general meeting.

A disposition of fixed assets includes an act involving the transfer of an interest in assets but does not include the provision of security by way of fixed assets.

Credit Powers

Our Articles do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- (a) provisions which authorize the Board to formulate proposals on the issue and listing of corporate bonds, shares of any class, equity warrants and other similar securities; and
- (b) provisions which provide that the issuance and listing of corporate bonds, shares of any class, equity warrants and other similar securities shall be approved by the Shareholders' general meeting by a special resolution.

Emoluments, Compensation or Payments for Loss of Office

With the prior approval at the Shareholders' general meeting, the Company shall sign written contracts with its Directors and Supervisors of the Company concerning their emoluments. Such emoluments include:

- (I) emoluments in respect of his/her service as a Director, Supervisor or senior management member of the Company;
- (II) emoluments in respect of his/her service as a Director, Supervisor or senior management member of a subsidiary of the Company;
- (III) remuneration otherwise in connection with the provision of other management services to the Company and its subsidiary;
- (IV) compensation for his/her loss of office or retirement as a Director or Supervisor.

A Director or Supervisor shall not file any lawsuit against the Company for the benefits they are entitled to for the foregoing matters other than pursuant to the aforesaid contracts.

In the contract for emoluments entered into by the Company with a Director or Supervisor, it shall be provided that such Director or Supervisor of the Company has the right to receive, in connection with the takeover of the Company and subject to prior approval at the general meeting, compensation or other payments for loss of office or retirement. A takeover of the Company means any of the following circumstances:

- (I) an offer is made to all Shareholders by any person;
- (II) an offer is made by any person such that the offeror will become the controlling Shareholder.

If any Director or Supervisor does not comply with the above requirements, any sum payable to them shall belong to those persons who have sold their Shares as a result of the above-mentioned offer, and the expenses incurred for the pro rata distribution of the sum among those persons shall be borne by the relevant Director and Supervisor and shall not be deducted from the sum distributed.

Loans to Directors, Supervisors and Other Management Members

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to Directors, Supervisors, general manager and other senior management members of the Company and the parent company of the Company, or their respective associates. However, the following circumstances are not subject to such prohibition:

- (I) the provision by the Company of a loan or a guarantee of a loan to a subsidiary of the Company;
- (II) the provision by the Company of a loan, a guarantee in connection with the making of a loan or other funds to Directors, Supervisors, general manager and other senior management members of the Company to meet expenditure incurred by him for the purposes of the Company or for the purpose of enabling him/her to perform his/her duties, in accordance with the terms of an employment contract approved at the general meeting;
- (III) the Company may make a loan to or provide a guarantee in connection with the making of a loan to the Directors, Supervisors, general manager and other senior management members or their respective associates, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees and conducted on normal commercial terms.

A loan made by the Company in breach of the above provisions shall be immediately repaid by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless:

- (I) at the time when the loan was provided to an associate of the Directors, Supervisors, general manager and other senior management members of the Company or the parent company of the Company, the lender did not know the relevant circumstances; or
- (II) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser. The aforesaid guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor.

Financial Assistance for the Acquisition of Shares in the Company

The Company or its subsidiaries shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers of the Company's Shares. Such purchasers of the Company's Shares shall include those who directly or indirectly assume the obligations in relation to the purchase of the Shares of the Company.

The Company or its subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or release the obligations of the aforesaid obligator.

The following activities are not regarded as prohibited acts, subject to any prohibitions under the relevant laws, administrative regulations, departmental rules and regulatory documents:

- (I) the provision of financial assistance by the Company is given in good faith in the interest of the Company, and the principal purpose in giving the financial assistance is not for the purchase of the Company's Shares, or the giving of the financial assistance is an incidental part of a plan of the Company;
- (II) the lawful distribution of the Company's assets by way of dividends;
- (III) the allotment of bonus Shares of the Company as dividends;
- (IV) reduction of registered capital, repurchase of Shares or reorganization of the Share capital structure effected in accordance with the Articles of Association;
- (V) the lending of money by the Company within its scope of business and in its ordinary course of business (provided that the net assets of the Company are not thereby reduced or, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company); and
- (VI) the provision of money by the Company for an employee shareholding scheme (provided that the net assets of the Company are not thereby reduced or, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company).

For these purposes, financial assistance includes (without limitation to) the following means:

- (I) gift;
- (II) guarantee (including the assumption of obligations by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation in respect of the Company's own fault), release or waiver of any rights;
- (III) provision of loan or entering into a contract under which the obligations of the Company are to be fulfilled before the obligations of another party, and a change in the parties to, and the assignment of rights arising under, such loan or a contract; and

- (IV) any other form of financial assistance given by the Company when the Company is insolvent, has no net assets or when its net assets would thereby be reduced to a material extent.

For these purposes, “assuming an obligation” includes the assuming of obligations by the changing of the obligor’s financial position by way of entering into a contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Disclosure of Interests in Contracts with the Company

Where a Director, Supervisor, general manager and other senior management member of the Company in any way, directly or indirectly, has a vital interest in a contract, transaction or an arrangement or a proposed contract, transaction or an arrangement with the Company (other than his/her contract of service with the Company), he/she shall declare the nature and extent of his/her interest to the Board at the earliest opportunity, whether or not the relevant matters thereof is otherwise subject to the approval of the Board under normal circumstances.

Other than under the exceptional circumstances specified in Note 1 of Appendix 3 of Hong Kong Listing Rules or by the Hong Kong Stock Exchange, a Director shall not vote on any resolutions of the Board with respect to contracts or arrangements or any other suggestions where he/she or his/her close associates (as defined in Hong Kong Listing Rules) have a material interest; the said Director shall not be included into the quorum of the meeting.

Unless the interested Director, Supervisor, general manager and other senior management member of the Company discloses his/her interest in accordance with the requirements of the preceding paragraph to the Board and the relevant matter is approved at a meeting of the Board of Directors in which the interested Director, Supervisor or senior management member is not counted in the quorum and refrains from voting, a contract, transaction or an arrangement is voidable by the Company, except against a bona fide party thereto acting without notice of the breach of duty by the relevant Director, Supervisor, general manager and other senior management member.

A Director, Supervisor, general manager and other senior management member of the Company is deemed to have an interest in a contract, transaction or an arrangement in which a related party or close associate of him/her has an interest.

Where a Director, Supervisor, general manager and other senior management members of the Company gives the Board a notice in writing stating that, by reason of the facts specified in the notice, he/she has an interest in contracts, transactions or arrangements of any description which may subsequently be made by the Company, such notice shall be deemed to be a sufficient declaration of his/her interest, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

Where a Director or any close associates (as defined in the Hong Kong Listing Rules) of a Director has material interests in a contract or arrangement or any other proposal to be resolved by the meeting of the Board, such Directors shall abstain from voting on such resolution(s), shall not vote on behalf of other Directors and shall not be counted as quorum of the meeting during the deliberation on such matter by the Board, unless otherwise specified in laws, regulations, regulatory documents and as otherwise required under relevant provisions of the securities regulatory authority at the place where the Shares of the Company are listed.

Resolutions of the Board shall be passed by more than one-half of the votes of the Directors who have no material interest in the resolutions. Where less than three Directors who have no material interest in the resolutions attend the Board meeting, the Board shall refer such resolutions to general meeting for review in a timely manner. The Board should explain to the general meeting the discussion of the Board on such resolution(s) and the views of the Directors who have no interest in such resolution(s).

Appointment, Removal and Retirement

The Company has a Board of Directors which consists of all Directors and shall be the operating decision-making body of the Company and accountable to the general meeting. The Board shall consist of seven Directors, of which no less than one-third shall be independent Directors elected at the general meeting. The Board shall have one employee representative Director nominated at the employee representative meeting and six other Directors, all of whom shall be elected at the general meeting.

The Board of the Company has one chairperson and one vice chairperson; both shall be elected and removed by a majority of all Directors. The chairperson and vice chairman shall have a term of office of three years and shall be eligible for re-election upon expiry of their term of office.

Directors of the Company shall be elected at the shareholders' general meeting. Directors shall be nominated by the Board or Shareholders, individually or in the aggregate, holding more than 5% of the Company's Shares, in the form of proposals.

In addition to being in compliance with the requirements of the Articles of Association, the qualification of Directors, general manager or senior management member shall be in compliance with the management requirements of the CBRC in relation to the qualification of Director, general manager or other senior management member of trust companies.

A Director may resign before the expiry of his/her term. The resigning Director shall submit to the Board a written resignation. In the case that the number of Directors falls below the quorum as a result of the resignation of a Director, the resigning Director shall, prior to the election of a new Director taking his/her office, continue to perform his/her duties as a Director in accordance with the requirements under the laws, administrative regulations, departmental rules and the Articles of Association. Except for the aforesaid circumstances, the resignation of a Directors shall become effective when the report of resignation is served to the Board.

A person may not serve as a Director, Supervisor, general manager or other senior management member of the Company in any of the following circumstances:

- (I) a person without legal capacity or with restricted legal capacity;
- (II) a person who has been penalized or sentenced due for corruption, bribery, embezzlement, appropriation of property or the disruption of the socialist market economy, and five years has not elapsed from which the punishment or deprivation of political rights for the crimes committed was carried out;
- (III) a Director, factory director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three (3) years has not elapsed from which the liquidation of the company or enterprise was completed;
- (IV) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws in which such person was personally liable, and three years has not elapsed form which the business license of the company or enterprise was revoked;
- (V) a person who has relatively large amounts of debts due and outstanding;
- (VI) a person who is subject to criminal investigation by the legal authority which is not yet closed;
- (VII) a person banned from holding leadership positions as stipulated by laws and administrative regulations;
- (VIII) a non-natural person;

- (IX) a person who is convicted of contravention of relevant securities regulations provisions by relevant competent authorities of the PRC, and such conviction involves a fraudulent act or dishonesty, where not more than five years have elapsed since the date of the conviction;
- (X) other circumstances stipulated by relevant laws and regulations in the place where the Shares of the Company are listed.

The validity of an act of a Director, general manager and other senior management members on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any non-compliance in his/her office, election or his/her qualification.

Duties

In addition to obligations imposed by laws, administrative regulations or listing rules of the stock exchange on which the Company's Shares are listed, the Company's Directors, Supervisors and senior management member owes the following duties to each Shareholder, in the exercise of the functions and powers entrusted to them by the Company:

- (I) not to cause the Company to exceed the business scope stipulated in its business license;
- (II) to act honestly in the best interest of the Company;
- (III) not to expropriate the Company's property in any form, including (without limitation to) usurpation of opportunities advantageous to the Company;
- (IV) not to expropriate the rights of Shareholders, including (without limitation to) rights to distribution and voting rights, save for a restructuring of the Company submitted to general meeting for approval in accordance with the Articles of Association.

Each of the Directors, Supervisors, general manager and other senior management members of the Company owes a duty, in the exercise of his/her powers or discharge of his/her duties, to exercise the care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances.

Each of the Directors, Supervisors and senior management member of the Company shall carry out his/her duties in accordance with fiduciary principles and shall not put himself/herself in a position where his/her duties and his/her interests may conflict. This principle includes (without limitation to) discharging the following obligations:

- (I) to act honestly in the best interests of the Company;

- (II) to exercise powers within the scope of his/her powers;
- (III) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of the Shareholders given in general meeting, not to delegate the exercise of his/her discretion to other person;
- (IV) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (V) except in accordance with the Articles of Association or with the informed consent of Shareholders given in general meeting, not to enter into contract, transaction or arrangement with the Company;
- (VI) without the informed consent of Shareholders given in general meeting, not to use the Company's property for his/her own benefit in any form;
- (VII) not to exploit his/her position to accept bribes or other illegal income or misappropriate the Company's funds or expropriate the Company's property by any means, including (without limitation to) opportunities advantageous to the Company;
- (VIII) without the informed consent of Shareholders given in a general meeting, not to accept commissions in connection with the Company's transactions;
- (IX) to abide by the Articles of Association, faithfully execute his/her official duties and protect the Company's interests, and not to exploit his/her position and power in the Company to advance his/her own private interests;
- (X) not to compete with the Company in any form unless with the informed consent of the Shareholders given in general meeting; not to damage the interests of the Company by taking the advantage of its affiliate relationship;
- (XI) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a Shareholder of the Company or other individual(s) with the Company's assets; and
- (XII) unless with the informed consent of the Shareholders given in general meeting, to keep in confidence confidential information regarding the Company acquired by him/her in the course of and during his/her term and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental competent authorities is permitted if:

1. disclosure is required by law;
2. disclosure is required for public interest;
3. the interests of the Directors, Supervisors, general manager and other senior management members require the disclosure.

Each Director, Supervisor, general manager and other senior management member of the Company shall not cause the following persons or institutions (“associates”) to do what he/she is prohibited from doing:

- (I) the spouse or minor child of that Director, Supervisor, general manager and other senior management member of the Company;
- (II) a person acting in the capacity of trustee of that Director, Supervisor, general manager and other senior management member of the Company or any person referred to in the preceding paragraph (I) above;
- (III) a person acting in the capacity of partner of that Director, Supervisor, general manager and other senior management member of the Company or any person referred to in paragraphs (I) and (II) above;
- (IV) a company in which that Director, Supervisor, general manager and other senior management member of the Company, alone or jointly with persons referred to in paragraphs (I), (II) and (III) above, or other Directors, Supervisors, general manager and other senior management members, have a de facto controlling interest; and
- (V) the Directors, Supervisors, general manager and other senior management members of the controlled company referred to in paragraph (IV).

The fiduciary duties of the Directors, Supervisors, general manager and other senior management members of the Company shall not necessarily cease upon termination of their term. The duty to keep confidential trade secrets of the Company survives after the termination of their term. The continuous period of other duties must be decided according to the principle of fairness, depending on the time lapse between the act concerned and the termination and the circumstances under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, general manager and other senior management member of the Company are in breach of his/her duties to the Company, the Company has a right to:

- (I) claim damages from the relevant Director, Supervisor, general manager and other senior management member in compensation for losses incurred by the Company as a result of his/her negligence;
- (II) rescind any contract or transaction entered into by the Company with the Director, Supervisor, general manager and other senior management member and with a third party (where the third party knows or should know that there is a breach of obligation by such Director, Supervisor, general manager and other senior management member);
- (III) demand a surrender of profits made by the Director, Supervisor, general manager and other senior management member in breach of his/her duties;
- (IV) recover any funds received by the Director, Supervisor, general manager and other senior management member which should have been received by the Company, including (without limitation to) commissions;
- (V) demand return of the interest earned or may have been earned by the Director, Supervisor, general manager and other senior management member on funds that should have been paid to the Company.

A Director, Supervisor, general manager and other senior management member of the Company may be relieved from liability for specific breaches of his/her duties by the informed consent of the general meeting. Other than obligated by laws, administrative regulations or relevant requirements of the listing rules of the securities regulatory authority at the place where the Company's Shares are listed, the Controlling Shareholders, when exercising his/her rights as a Shareholder, shall not vote to bring about decisions that would impair the interest of all or part of the Shareholders on the following matters:

- (I) to release the obligation of Directors and Supervisors to act honestly in the best interest of the Company;
- (II) to allow Directors and Supervisors (for the interest of themselves or others), to expropriate by any means, the Company's property, including (without limitation to) opportunities advantageous to the Company;

- (III) to allow Directors and Supervisors (for the interest of themselves or others) to expropriate the rights of other Shareholders, including (without limitation to) rights to distribution and voting rights, save for restructuring of the Company submitted to the general meeting for approval in accordance with the Articles of Association.

Procedure of amending the Articles of Association

The Company may amend the Articles of Association in accordance with the laws, regulations and the Articles of Association.

The amended Articles of Association shall be subject to the approval of the CBRC or its local office. If the amendment involves any content of Mandatory Provisions, the said amendment shall be subject to approval by the company approval authority authorized by the State Council and securities regulatory authority under the State Council. Where an amendment shall be subject to registration, the Company shall register such amendment in accordance with the relevant laws.

Variation of Rights of Existing Shares or Classes of Shares

The Shareholders of the Company shall report to the CBRC or its local office for approval for the transfer of Shares, except for those who individually or together with its connected parties hold tradable Shares of the Company not reaching 5% of the total Shares of the Company.

Any Shareholder who owns more than 5% of the total Shares must report in writing to the Company on the day it occurs.

If a Shareholder who owns 5% or more of the total Shares of the Company without prior approval of the banking regulatory authority, unless approval is obtained from the banking regulatory authority, the exercise of rights of the Shareholder in respect of the Shares in excess of 5% of the total Shares of the Company ("Excess Shares") shall be subject to restrictions, included but not limited to:

- (I) The Excess Shares shall have no voting rights at a general meeting (including class meeting);
- (II) The Excess Shares shall have no rights in respect of the nomination of candidates for Directors or Supervisors.

Notwithstanding the foregoing, holders of Excess Shares shall not be subject to any restrictions in exercising other Shareholders' rights under the Articles of Association. If a Shareholder fails to obtain approval from the banking regulatory authority for the holding of the Excess Shares, the Shareholder shall transfer the Excess Shares within a period prescribed by the banking regulatory authority.

Rights conferred on any class Shareholders may be varied or abrogated upon approval by a special resolution of general meeting and by holders of that affected class of Shares at a general meeting separately convened in accordance with the Articles of Association. The following circumstances shall be deemed to be variation or abrogation of the rights of class Shareholders:

- (I) to increase or decrease the number of Shares of such class, or to increase or decrease the number of Shares of class having voting or distribution rights or privileges equal to or more than those of Shares of such class;
- (II) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (III) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (IV) to reduce or remove a dividend preference or a liquidation preference during the process of the Company's liquidation, attached to Shares of such class;
- (V) to add, remove or reduce conversion rights, options, voting rights, rights of transfer or pre-emptive rights, or rights to acquire securities of the Company attached to Shares of such class;
- (VI) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (VII) to create a new class of Shares having voting or distribution right or privileges equal to or more than those of the Shares of such class;
- (VIII) to restrict the transfer or ownership of the Shares of such class or add such restriction;
- (IX) to issue rights to subscribe for, or convert into, Shares of such class or another class;
- (X) to increase the rights and privileges of Shares of another class;
- (XI) to restructure the Company where the proposed restructuring will result in different classes of Shareholders bearing a disproportionate burden of responsibilities in such proposed restructuring; and
- (XII) to revise or abrogate provisions of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (II) to (VIII), (XI) to (XII) above, but interested Shareholder(s) shall not be entitled to vote at class meetings. For the purpose of this section, interested Shareholder(s) shall have the following meaning:

- (I) if the Company has made a repurchase offer to all Shareholders on pro rata basis or made a repurchase of its own Share by means of public transaction at the stock exchange in accordance with the Articles of Association, “interested Shareholder(s)” shall refer to the controlling Shareholders as defined in the Articles of Association;
- (II) if the Company has made a repurchase of its own Share by means of agreement outside the stock exchange in accordance with the Articles of Association, “interested Shareholder(s)” shall refer to the Shareholders who are parties to the agreement;
- (III) in a restructuring plan of the Company, “interested Shareholder(s)” refers to those Shareholders who assume less responsibilities than other Shareholders of the same class or those Shareholders who enjoy interests different from other Shareholders of the same class.

Resolutions of a class meeting shall be passed by votes representing two-thirds or more of the voting rights held by the Shareholders of that class present at the relevant meeting who are entitled to vote.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all Shareholders in the Share register of the class of the matters to be considered, the date and the venue of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his/her written reply to the Company 20 days before the date of the class meeting.

If the number of voting Shares represented by the Shareholders who intend to attend the meeting has reached one-half or more of the Company’s total voting Shares of the class, the Company may hold the class meeting. Otherwise, the Company shall within five days notify the Shareholders again by public notice of the matters to be considered and the date and the venue for the meeting. The Company may then hold the meeting after the publication of such public notice.

Notice of class meetings may only be served to Shareholders entitled to vote thereat.

A class meeting shall be conducted in a manner as similar as possible to that of a general meeting. The provisions of the Articles of Association relating to the manner of conducting any general meeting shall apply to the class meeting.

The special voting procedures at a class meeting shall not apply in the following circumstances:

- (I) where the Company issues Domestic Shares and overseas listed Shares, either separately or concurrently, once every 12 months, not more than 20% of each of its existing issued Domestic Shares and overseas listed Shares pursuant to approval by a special resolution at general meeting;
- (II) where the Company issues Domestic Shares and overseas listed Shares under a plan adopted at the time of its establishment within 15 months from the date of approval of the plan by the securities regulatory authority of the State Council;
- (III) where the Shareholders of the Company arranges the listing and trading of its unlisted Shares on an overseas stock exchange pursuant to approval of the securities regulatory authority of the State Council.

Alteration of Capital

Increase of Registered Capital

Upon the proposal by the Board, approval at the general meeting and submission to the relevant regulatory authority for permission pursuant to the provisions under the laws and regulations, the Company may approve the increase of capital in accordance with the relevant requirements of the Articles of Association, having taken into account the needs of operations and business development. The Company may increase its capital in the following ways:

- (I) public offering of Shares;
- (II) non-public offering of Shares;
- (III) placing new Shares with existing Shareholders;
- (IV) allotting new Shares to existing Shareholders;
- (V) capitalization of capital reserve; or
- (VI) other ways permitted in laws and administrative regulations and approved by the securities regulatory authorities under the State Council.

The increase in the Share capital of the Company by issuing new Shares shall be approved in accordance with the Articles of Association and shall be conducted in accordance with the procedures under relevant laws and administrative regulations.

If the issue of convertible bonds by the Company may result in the increase in its registered capital, the convertible bonds shall be issued in accordance with the requirements of relevant laws, regulations, regulatory documents and the offering document in relation to the issue.

Reduction of Registered Capital

The Company may reduce its registered capital in accordance with the Company Law and other relevant laws, regulations, regulatory documents and the Articles of Association.

The Company must prepare a balance sheet and an inventory of assets when it is to reduce its registered capital.

The Company shall notify its creditors within 10 days of the adoption of the resolution to reduce its registered capital and shall publish an announcement in a newspaper at least three times within 30 days. Creditors shall, within 30 days of receiving the written notice or within 90 days since the date of the public announcement for those who have not received the written notice, be entitled to demand the Company to pay its debts in full or to provide a guarantee for repayment.

The registered capital of the Company after reduction shall not be less than the statutory minimum.

The Company shall submit an application to the banking regulatory authority for approval when it is to reduce its registered capital.

Special Resolutions — Majority Required

Resolutions of general meetings shall include ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one-half of the voting rights held by the Shareholders (including proxies) present at the meeting.

A special resolution shall be passed by two-thirds or more of the voting rights held by the Shareholders (including proxies) present at the meeting.

The following matters shall be approved by general meeting by special resolutions:

- (I) increasing or reducing the share capital of the Company, repurchasing Shares of the Company and issuing Shares of any class, equity warrants and other similar securities;
- (II) the issuance of corporate bonds;

- (III) division, merger, dissolution, liquidation or change of corporate form of the Company;
- (IV) amendment to the Articles of Association;
- (V) the equity incentive plan;
- (VI) purchase, disposal of major assets or provision of guarantee in its proprietary business within one year with an individual or aggregate value of more than 30% of the total audited assets of the Company for the latest period; and
- (VII) other matters stipulated by laws, regulations, regulatory documents, the requirements of the securities regulatory authority at the place where the Company's Shares are listed or the Articles of Association, or matters which are determined by an ordinary resolution of the general meeting to be of material significance to the Company and are required to be approved by way of special resolutions.

Apart from the aforementioned matters which shall be passed by special resolutions, other matters requiring approval at general meeting shall be approved by ordinary resolutions.

Voting Rights (generally, on a poll and right to demand a poll)

Shareholders (including their proxies) are entitled to exercise the voting rights of their voting Shares at general meeting. Each Share shall have one voting right. Shares of the Company held by the Company shall not carry voting rights and such Shares shall not be included in the total number of voting Shares present at general meeting.

An accumulative voting system is adopted for the election of Directors and Supervisors at the general meeting. Each unit of equity shall be entitled to the number of votes equivalent to the number of Directors or Supervisors to be elected at the general meeting, and Shareholders may consolidate their votes for one or more Directors or Supervisors when casting a vote.

Voting shall be conducted by a show of hands in a general meeting, unless it is otherwise stated in applicable rules governing the listing of securities or other laws and regulations on securities, or the following persons require ballot voting before or after the announcement of voting by a show of hands:

- (I) chairperson of the meeting;
- (II) at least two Shareholders or their proxies with voting rights; or

- (III) one or several Shareholders (including their proxies) holding more than 10% (inclusive) of the voting Shares in the meeting, whether separately or in aggregate

A poll demanded on the election of chairperson or adjournment of the meeting shall be taken immediately. A poll demanded on any other resolution shall be taken at such time as the chairperson of the meeting decides and the meeting may proceed to discuss any other matters. The result of the poll shall be deemed as a resolution adopted at the meeting at which the poll is demanded.

On a poll, a Shareholder (including their proxies) who is entitled to have two or more votes need not cast all his votes for or against a resolution.

General Meetings

General meetings include annual general meetings and extraordinary general meetings. An annual general meeting shall be convened once each year and within six months from the close of every accounting year.

An extraordinary general meeting shall be convened within two months from the date of occurrence of any of the following events:

- (I) the number of Directors is less than the number required by the Company Law or less than two-thirds of the number stipulated in the Articles of Association;
- (II) the outstanding loss of the Company is at least one-third of the total paid-in capital;
- (III) Shareholders who individually or jointly hold more than 10% of the Shares of the Company (inclusive) have requested to convene the extraordinary general meeting in writing;
- (IV) the Board deems it necessary to convene the meeting;
- (V) the board of Supervisors proposes to convene the meeting;
- (VI) any other circumstances as stipulated by the laws, administrative regulations, departmental rules or the Articles of Association.

The Shareholding mentioned in paragraph (iii) above shall be determined as of the close of the date or, if it falls on a non-trading date, the last trading date, on which such Shareholders demand to convene the meeting in writing.

Accounts and Audit***Financial and Accounting Systems and Financial Reports***

The Company shall establish its financial and accounting systems according to laws, administrative regulations and the requirements of the Chinese accounting standards formulated by the financial competent authority of the State Council.

The Board of the Company shall at each annual general meeting submit to Shareholders the financial statements prepared by the Company as required by the relevant laws, administrative regulations and regulatory documents promulgated by local governments and competent departments.

The Company's financial reports shall be made available at the Company for Shareholders' review 20 days before the date of annual general meeting. Each Shareholder shall be entitled to obtain a copy of the abovementioned financial reports.

The interim results or financial information published or disclosed by the Company shall be prepared in accordance with Chinese accounting standards and regulations, and according to the international or overseas accounting standards in the place where the Company's Shares are listed as well.

The Company shall publish its financial report twice in each fiscal year, i.e. the interim financial report within 60 days after the end of the first six months of a fiscal year and the annual financial report within 120 days after the end of a fiscal year, subject to the requirement of the securities regulatory authorities in the place where the Shares of the Company are listed.

Appointment of an Accounting Firm

The Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the PRC to audit the annual financial reports and other financial reports of the Company.

The term of office of the accounting firm appointed by the Company shall commence from the conclusion of the annual general meeting and shall end at the conclusion of the next annual general meeting.

The Board shall appoint an accounting firm to fill any casual vacancy in the office of the accounting firm before the convening of general meeting. If the Company has other serving accounting firms, such accounting firms shall continue to perform their duties as long as the vacancy remains unfilled.

The remuneration or the basis of remuneration of an accounting firm shall be determined by general meeting. The remuneration of an accounting firm appointed by the Board shall be determined by the Board.

Change and Removal of an Accounting Firm

The Company's appointment, removal and non-reappointment of an accounting firm shall be resolved at general meeting and shall be filed with the CBRC and the competent securities authority of the State Council.

The Company shall notify the accounting firm in advance before the dismissal or non-reappointment of such accounting firm. The accounting firm shall be allowed to present its views at the general meeting. Where the accounting firm tenders its resignation, it shall state at the general meeting whether the Company has any improper matters.

The general meeting shall abide by the following provisions when proposing to pass a resolution regarding the appointment of an accounting firm not currently serving the company to fill the vacancy of an accounting firm, or the renewal of terms of service of an accounting firm appointed by the Board to fill a vacancy, or the dismissal of an accounting firm before the expiry of its term:

- (I) the proposal of appointment or dismissal shall be sent to the accounting firm to be appointed, to be or has been terminated prior to the issue of the notice of general meeting. The termination of an accounting firm includes dismissal, resignation and retirement.
- (II) if the accounting firm being terminated requires the Company to forward its written statement to Shareholders, the Company shall take the following measures unless the written statement is not received in time:
 1. to state on the notice issued for adoption of the resolution that an accounting firm about to leave its post has made a statement; and
 2. to deliver a copy of the statement to Shareholders as an appendix to the notice of meeting in accordance with the Articles of Association.
- (III) if the statement of the accounting firm is not delivered in accordance with paragraph (II), the relevant accounting firm may request such statement to be read at the general meeting and may make further appeals.
- (IV) the accounting firm leaving its post shall be entitled to attend the following meetings:
 1. the general meeting at which its term of service would otherwise have expired;

2. the general meeting for filling the vacancy caused by its dismissal; and
3. the general meeting convened as a result of its voluntary resignation.

The accounting firm leaving its post shall be entitled to receive all notices of the aforementioned meetings and other information relating to such meetings and shall also be entitled to present its views at the meetings on matters in relation to its previous engagement as the accounting firm of the Company.

Resignation of an Accounting Firm

Any accounting firm may leave office by depositing at the Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as stipulated in such notice. Such notice shall include the following:

- (I) a statement to the effect that there are no circumstances in relation to its resignation which should be brought to the notice of the Shareholders or creditors of the Company; or
- (II) a statement of any relevant situations which needs to be brought to the notice.

The Company shall send a copy of the notice to the relevant governing authority within 14 days upon receipt of the written notice mentioned in paragraph (I) above. If the notice contains a statement under paragraph (II) above, a copy of such statement shall be placed at the Company for Shareholders' inspection. The copy of such statement shall also be sent by prepaid mail to Shareholders entitled to have the copy of the report of financial condition of the Company at the address as recorded in the register of members.

Where the accounting firm's notice of resignation contains a statement mentioned in the paragraph (II) above, the accounting firm may require the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Notice of Shareholders' General Meetings and Matters to be Dealt with at the Meetings

When the Company is to convene a Shareholders' general meeting, it shall issue a written notice stating the matters intended to be considered and the date and venue of the meeting to Shareholders whose name appears in the register of members 45 days prior to the meeting. Shareholders who intend to attend the general meeting shall send a written reply to the Company 20 days before the meeting.

The notice of a general meeting shall be in compliance with the following requirements:

- (I) in written form;
- (II) the designated location, date and time of the meeting;
- (III) the matters and all resolutions to be deliberated at the meeting. Proposed changes to any resolution passed at the previous general meeting shall be disclosed in full rather than disclosing the changes only;
- (IV) the information and explanation necessary for Shareholders to make decisions regarding the matters to be discussed, including (but not limited to) specific terms and contracts (if any) for a proposed transaction, and a detailed explanation of the reasons and consequences where the Company proposes a merger, repurchase of Share capital, restructuring of Shares or other forms of restructuring;
- (V) where any Director, Supervisor, general manager and other senior management member have an important interest in matters to be discussed, the nature and extent of that interest shall be disclosed. Further, where the impact of the matters to be discussed on such Director, Supervisor, general manager and other senior management members who are Shareholders is different from the impact on other Shareholders of the same class, the difference shall be explicitly explained;
- (VI) setting out the full text of any special resolution proposed to be passed at the meeting;
- (VII) a prominent statement that Shareholders entitled to attend and vote at the general meeting may entrust one or more proxies, who does not need to be a Shareholder, to attend the meeting and vote on their behalf;
- (VIII) setting out the record date of equity interest for eligible Shareholders for attending the Shareholders general meeting;
- (IX) setting out the time and place for the delivery of the proxy letter of the meeting;
- (X) name, phone number and email address of the contact person for meetings; and
- (XI) other requirements stipulated by the laws, administrative regulations, departmental rules, Hong Kong Listing Rules and the Articles of Association.

Notice of general meeting shall be served to Shareholders (whether or not entitled to vote at the general meeting) by personal delivery or prepaid mail to their addresses as shown in the register of members. For holders of Domestic Shares, the notice of a Shareholders' general meeting may be issued by way of public notice.

The public notice shall be published in one or more forms of media designated by the competent securities authority of the State Council and on the website of the Company within the period between 45 days and 50 days before the date of the meeting. After the publication of such notice, the holders of Domestic Shares shall be deemed to have received the notice of the relevant Shareholders' general meeting.

The Company shall, based on the written replies received 20 days before the date of the Shareholders' general meeting, calculate the number of voting Shares represented by Shareholders who intend to attend the meeting. If the number of voting Shares represented by the Shareholders who intend to attend the meeting has reached one-half or more of the Company's total voting Shares, the Company may hold the Shareholders' general meeting. Otherwise, the Company shall within five days notify the Shareholders again by public notice of the matters to be considered, the date and the venue for the meeting. The Company may then hold the meeting after the publication of such public notice.

When the Company convenes Shareholders' general meeting, the Board, board of Supervisors and Shareholders, individually or in aggregate, holding 5% or more of the Shares in issue with voting rights of the Company shall have the right to submit proposals to the Company in writing. The Company shall place matters in the proposals within the scope of functions of the general meeting on the agenda of such meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the meeting or any resolution adopted at that meeting.

The general meeting consists of all Shareholders, is the organ of authority of the Company and shall exercise functions and powers in accordance with the Company Law and other laws, regulations, Hong Kong Listing Rules and the Articles of Association.

The general meeting shall exercise the following functions and powers:

- (I) decide the Company's operating policies, strategic development plan and investment plans;
- (II) elect and replace the Directors and decide on remuneration matters of Directors;
- (III) elect and replace Supervisors who are representatives of Shareholders and decide on remuneration matters of Supervisors;
- (IV) consider and approve the reports of the Board;

- (V) consider and approve the reports of the board of Supervisors;
- (VI) consider and approve the annual financial budgets and final accounts of the Company;
- (VII) consider and approve the profit distribution plans and loss recovery plans of the Company;
- (VIII) adopt a resolution for the increase or decrease in registered capital of the Company;
- (IX) adopt a resolution for matters including the merger, separation, dissolution, liquidation and change of the corporate form of the Company;
- (X) adopt a resolution for issuing bonds by the Company;
- (XI) adopt a resolution for the engagement, dismissal or replacement of accounting firm of the Company;
- (XII) make amendments to the Articles of Association;
- (XIII) consider transactions of the self-run business including major investment of equity interests, investment of debentures, purchases of assets, disposal of assets, writing off of assets and external guarantees, subject to the approval from the general meeting in accordance with laws, regulations and listing rules of the listing place;
- (XIV) consider and approve Share incentive plans;
- (XV) consider connected transactions which are required by the laws and securities regulations at the place where the Company's Shares are listed to be considered and approved by the general meeting;
- (XVI) consider any matters proposed by Shareholders, individually or in the aggregate, representing 5% or above of the Shares of the Company with voting rights;
- (XVII) consider and approve the Rules of Procedures of General Meetings, Rules of Procedures of the Board and Rules of Procedures of the Board of Supervisors;
- (XVIII) other matters which are required by the laws, administrative regulations, the listing rules of the listing place and the Articles of Association to be resolved by the general meeting.

The above matters which are within the scope of authority of the general meeting shall be considered and approved by the general meeting. However, the general meeting may delegate power to the Board to decide on such matters under necessary, reasonable and lawful circumstances. Matters which are subject to approval by the CBRC or its local office shall not be effect unless the approvals from the CBRC or its local office are duly obtained.

Transfer of Shares

Unless otherwise provided by laws, administrative regulations, securities regulatory authority at the place where the Company's Shares are listed, fully paid-up Shares in the Company are freely transferable and are not subject to any lien. To transfer the overseas listed Shares listed in Hong Kong, the transferor shall carry out registration at the local stock registration organization entrusted by the Company in Hong Kong.

All the fully paid-up overseas listed Shares that are listed in Hong Kong can be freely transferred in accordance with the Articles of Association. Unless the following requirements are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal:

- (I) any transfer documents and other documents which are relevant to or which would affect the ownership of the Shares shall be registered with a registration fee payable to the Company in accordance with the Hong Kong Listing Rules stipulated by Hong Kong Stock Exchange;
- (II) such transfer documents only relate to the overseas listed Shares listed on the Hong Kong Stock Exchange;
- (III) any stamp duty payable on the transfer documents are duly paid in accordance with the laws of Hong Kong;
- (IV) relevant Share certificates and other proof which proves the transferor's ownership of the Shares shall be provided, as the Board may reasonably require;
- (V) there shall only be a maximum of four joint holders in the event that the Shares are to be transferred to joint holders;
- (VI) no Company's lien shall be attached to the relevant Shares.

Where the Board refuses to register the transfer of Shares, the Company shall issue a notice of refusal to the transferor and the transferee within two months from the date of application for the transfer.

The promoter who holds the Shares of the Company and Shareholders whose qualifications are verified by the CBRC or its local office, shall comply with the restrictive requirements in relation to the transfer of Shares as stipulated by the Company Law and CBRC.

Directors, Supervisors and the senior management members of the Company shall declare to the Company that their Shareholdings in the Company and any alternation of such Shareholdings. They shall not transfer more than 25% of all the Shares held in the Company in any particular year during their tenure. They shall not transfer the Shares of the Company held within one year from the date of the Company's listing on a stock exchange, or six months after their resignation from their positions with the Company. If the restrictions on the transfer of Shares provided herein relates to Shares listed overseas, compliance with the relevant requirements under the Hong Kong Listing Rules and relevant applicable laws and regulations shall be required.

The Company shall not accept its own Shares as the subject for the right of pledge.

Power of the Company to Purchase Its Own Shares

The Company may repurchase its issued Shares through statutory procedures in the following circumstances in accordance with the laws, regulations and provisions of the Article of Associations and subject to the approval of the relevant governing authority of the PRC:

- (I) cancelling the Shares in order to reduce the registered capital of the Company;
- (II) merging with any other companies holding Shares of the Company;
- (III) giving the Shares to employees of the Company as a reward;
- (IV) being requested to repurchase the Shares of the Company by the Shareholders who object to the resolutions adopted at the general meeting concerning merger or division of the Company; and
- (V) other circumstances permitted by laws and administrative regulations.

Where the Company repurchases its Shares under circumstances (I) to (III), it shall obtain approval from general meeting. Where the Company repurchases its Shares under circumstance (I), it shall cancel such Shares within the time frame set forth by the laws and administrative regulations, and apply to the corporate registration authority for the change of registered capital, and make corresponding announcement. Where the Company repurchases its Shares under circumstances (II) and (IV), it shall cancel or transfer such Shares within the time frame set forth by the laws and administrative regulations, and apply to the corporate registration authority for the change of registered capital, and make corresponding announcement. The Shares repurchased under circumstance (III) shall not

exceed the maximum percentage stipulated by the laws and administrative regulations. The funds for repurchase shall be paid from the after-tax profits of the Company. Such Shares shall be transferred to the employees within the time frame set forth by the laws and administrative regulations.

The Company may repurchase its Shares in accordance with the laws in any of the following ways after being approved by relevant competent authorities of the State:

- (I) making a repurchase offer pro rata to all Shareholders;
- (II) repurchasing by means of public dealing on a stock exchange;
- (III) repurchasing by an off-market agreement; or
- (IV) other methods as recognized by relevant regulatory authorities.

Where the Company repurchases its Shares by an off-market agreement, the prior approval of general meeting shall be obtained in accordance with the Articles of Association. The Company may terminate or amend the contracts entered into in the aforementioned ways or waive its rights under a contract entered into in the aforementioned ways.

A contract to repurchase Shares includes (without limitation to) the consent to become obliged to repurchase or an acquisition of the right to repurchase Shares. The Company shall not assign a contract to repurchase its Shares or the rights under a contract to repurchase its Shares.

For the redeemable Shares which can be repurchased by the Company, other than such repurchases made through the stock exchange or by tender, the repurchase price shall be limited to a certain single maximum price. If such repurchases are made by tender, tenders shall be available to all Shareholders alike.

Dividends and Other Methods of Profit Distribution

The Company's profits after paying relevant taxes shall be distributed in the following order of priority:

- (I) offsetting the losses in the previous year;
- (II) appropriating 10% of statutory reserve fund; no further contribution to the Company's statutory reserve fund is required when the cumulative amount reaches 50% of the Company's registered capital;

- (III) appropriating 5% for its trust compensation reserve; no further contribution to the trust compensation reserve is required when the cumulative amount reaches 20% of the Company's registered capital;
- (IV) appropriating its discretionary reserve fund in accordance with the resolutions of the general meeting.

The Company may distribute its profits after offsetting its losses and contributing to its reserve fund in proportion to the Shares held by a Shareholder, except for those which are not distributed in a proportionate manner as provided by the Articles of Associations.

Any distribution of the Company's profits to any Shareholder before offsetting its losses or appropriating its statutory reserve fund by the general meeting in violation of the above requirements shall forthwith be returned by the Shareholders to the Company.

The Shares of the Company held by the Company shall not be subject to profit distribution.

The Company may distribute dividends in the following manners (or both of them):

- (I) cash;
- (II) Shares.

The Company shall calculate, declare and pay dividends and other amounts which are payable to holders of Domestic Shares in Renminbi within three months after the date of declaration. The Company shall calculate and declare dividends and other payments which are payable to holders of overseas-listed Shares in Renminbi, and shall pay such amounts in foreign currency within three months after the date of declaration. The exchange rate shall be the average closing rate for the relevant foreign currency announced by the People's Bank of China five working days prior to the announcement of payment of dividend and other amounts. The Company shall pay the holders of overseas-listed Shares in accordance with the relevant foreign exchange control regulations of the PRC. The distribution of dividend shall be under the authorization of the general meeting to the Board by way of ordinary resolutions.

After Shareholders have adopted a resolution on the profit distribution plan in the general meeting, the board of Directors shall complete the profit distribution within two months after the general meeting is held.

Any amount paid up by Shareholders in advance of calls on any Shares may carry interest but the holder of such Shares shall not be entitled to participate in respect thereof in a dividend subsequently declared.

The Company shall appoint receiving agents on behalf of the holders of overseas-listed Shares to receive on behalf of such Shareholders dividends declared and all other monies payable by the Company in respect of such Shares. The receiving agents appointed by the Company shall satisfy the relevant requirements of the laws of the place and relevant regulations of the stock exchange where the Shares of the Company are listed. The receiving agents appointed for the holders of overseas-listed Shares listed on the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Shareholders' proxies

Any Shareholder entitled to attend and vote at a general meeting shall have the right to appoint one or several persons (who need not be Shareholders) to act as their proxies to attend and vote at the meeting on their behalf. The proxies so appointed by the Shareholders may exercise the following rights:

- (I) have the same right as the Shareholder to speak at the meeting;
- (II) have authority to demand or join in demanding a poll; and
- (III) have the right to vote by hand or on a poll, but when more than one proxy has been appointed, the proxies only have right to vote on a poll.

Shareholders shall appoint a proxy by written instrument which is signed by the appointer or his/her agent so authorized in writing, or if the appointer is a legal person or other institutions, sealed by the stamp of the legal person or institution or signed by its legal representative, Directors, or duly appointed proxy.

The proxy form issued by a Shareholder to appoint a proxy to attend a general meeting shall set out the following:

- (I) name of the appointor and the name of the proxy;
- (II) number of Shares of the appointer represented by the proxy;
- (III) whether or not such Shares carry voting rights;
- (IV) respective instructions on each item to be discussed on the agenda of the general meeting, stating whether the Shareholder agrees to, objects to or abstains from voting the resolution;
- (V) whether or not the Shares carry the voting right on the extraordinary resolutions as may be included in the agenda of the general meeting and, if any, detailed instructions on which kind of voting rights shall be exercised;

(VI) issuing date of the proxy form and its valid period;

(VII) signature (or seal) of the appointer; shall be affixed with the corporate seal if the appointer is a corporate Shareholder.

The proxy form shall be deposited at the address of the Company or such other place specified in the notice of the meeting not less than 24 hours prior to the time appointed for the holding of the meeting as stated in the said proxy form or 24 hours prior to the time appointed for voting. Where proxy form is signed by a person authorized by the appointer, the power of attorney or other authorization instruments shall be notarised. The notarized power of attorney and other authorization instruments, together with the proxy form, shall be lodged at the address of the Company or such other place as specified in the notice of the meeting.

The format of the power of attorney or proxy form provided to Shareholders by the Board of the Company for appointing proxies shall enable the Shareholder to instruct his proxies to vote for or against or abstain from voting and to make instructions on each item to be discussed on the agenda of the general meeting. The proxy letter shall specify whether the proxy may vote as he/she thinks fit in the absence of instructions from the Shareholder. If the proxy form does not specify, the proxy may vote as he/she thinks fit in respect of any item without any specified instruction and the Shareholder shall be responsible for such voting.

A vote given in accordance with the terms of an instrument of proxy shall be valid if no notice in writing has been given to the Company with respect to the previous death or loss of capacity of the appointer, revocation of the proxy form or of the authorization under which the proxy form is executed, or the transfer of the relevant Shares before the commencement of the relevant meeting.

Calls on Shares and Confiscation of Shares

Subject to relevant laws, regulations, rules and regulatory documents, the Company may confiscate any unclaimed dividends after the expiry of the applicable term of validity.

If dividend warrants have been left uncashed on two consecutive occasions, the Company shall be entitled to stop sending dividend warrants to holders of overseas-listed Shares by post. However, such power may be exercised after the first occasion on which such a warrant is returned and undelivered.

The Company shall have the power to sell, in such manner as the Board thinks fit, any overseas-listed Shares of a holder who is untraceable subject to the following conditions:

(I) the Company has distributed dividends at least three times in respect of such Shares within 12 years, but none of such dividends was claimed; and

- (II) the Company, after the expiration of a period of 12 years, made an announcement in one or more newspapers in the place in which the Company is listed, stating its intention to sell such Shares, and notifying the securities regulatory authority of the place in which the Company is listed of such intention.

Shareholders' rights

The Shareholders of ordinary Shares of the Company shall enjoy the following rights:

- (I) the right to receive dividends and other distributions in proportion to their shareholdings;
- (II) the right to attend or appoint a proxy to attend general meetings and to exercise voting rights;
- (III) the right to supervise the Company's business operations, the right to present proposals or raise queries;
- (IV) the right to transfer Shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- (V) the right to obtain relevant information in accordance with the Articles of Association, including:
 - (1) the right to obtain a copy of the Articles of Association, subject to payment of costs;
 - (2) the right to inspect and copy, subject to payment of a reasonable fee:
 - 1. all parts of the register of members;
 - 2. personal particulars of each of the Company's Directors, Supervisors, general manager and other senior management members, including:
 - (a) present and former names and alias;
 - (b) principal address(place of residence);
 - (c) nationality;
 - (d) primary and all other part-time occupations and duties;
 - (e) identification documents and the numbers thereof.
 - (3) statement of the Company's share capital;

- (4) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of Shares repurchased by the Company since the last accounting year as well as the aggregate amount paid by the Company for this purpose;
- (5) minutes of general meetings, special resolutions, resolutions of the meetings of the Board and resolutions of the meetings of the board of Supervisors;
- (6) financial and accounting reports and reports of the Board of Directors, auditors and board of Supervisors;
- (7) corporate bond stubs.

If any Shareholder needs to access the relevant information as set out in the preceding paragraph, the said Shareholder shall provide the Company with written documents evidencing the type and number of Shares held by him, and the Company shall provide such information as required by the said Shareholder upon authentication of the Shareholder.

- (8) copies of the latest annual inspection report submitted to the Administration of Industry and Commerce or other competent authorities for record purposes.

The Company shall place the documents referred to in items (1) to (8) mentioned above and any other applicable documents at the Company's address in Hong Kong in accordance with the requirements of the Hong Kong Listing Rules for inspection by the public and holders of overseas-listed Shares free of charge while minutes of general meetings are for inspection by Shareholders only.

Upon request of any Shareholder for a copy of the relevant minutes, the Company shall deliver the copy within seven days upon the receipt of reasonable charges.

- (VI) to participate in the distribution of the remaining properties of the Company in proportion to their shareholdings in the event of the termination or liquidation of the Company;
- (VII) to require the Company to buy their Shares in the event of objection to resolutions of the general meeting concerning merger or division of the Company; and
- (VIII) to be entitled to other rights stipulated by laws, regulations, regulatory document and the Articles of Association.

If any person holding interest directly or indirectly exercises his right based on the Shares of the Company without revealing such interest to the Company, the Company shall not compromise such person's right based on the Shares of the Company by freezing it or in any other ways.

Quorum of the Shareholders' General Meetings and Separate Class Meetings

The Company shall calculate the number of Shares with voting rights represented by Shareholders who intend to attend the meeting based upon the written reply received 20 days prior to the Shareholders' general meeting. Where the number of voting rights Shares held by Shareholders who are going to attend the meeting reaches half or more of the total Shares with voting rights of the Company, the meeting may be held. Otherwise, the Company shall, within five days, inform the Shareholders again of the matters to be considered in and the date, and venue of the meeting by way of an announcement. The Company may convene the Shareholders' general meeting after such announcement has been made.

Where the number of voting Shares represented by those Shareholders intending to attend the meeting reaches not less than half of the total number of voting Shares of that class, the Company may convene the class meeting. Otherwise, the Company shall, within 5 days, inform the Shareholders again of the matters to be considered in and the date and venue of the meeting by way of an announcement. The Company may convene the class meeting after such announcement has been made.

Liquidation

In any of the following circumstances, the Company may be dissolved and liquidated in accordance with the laws:

- (I) dissolution as resolved by a general meeting and approved by relevant regulatory authorities;
- (II) dissolution as a result of the merger or division of the Company;
- (III) the declaration of insolvency against the Company pursuant to the law due to its failure to repay debts as they fall due;
- (IV) the revocation of the business license or closure orders issued against or deregistration of the Company pursuant to the law;
- (V) where the Company suffers significant hardship in its operation or management so that the interests of its Shareholders are subject to significant loss if the Company continues to exist, and that the situation cannot be resolved by any other means, the Shareholders holding 10% or more of the voting rights of all the

Shareholders of the Company may petition the people's court to dissolve the Company and the People's Court has granted the dissolution pursuant to the law;

(VI) other circumstances in which the Company is required to be dissolved pursuant to the laws and regulations.

The dissolution of the Company shall be filed with the CBRC for approval.

Where the Company is dissolved pursuant to the sub-paragraphs (i), (ii), (iv) and (v) above, a liquidation committee shall be established to commence the liquidation procedures within fifteen days from the date which the cause leading to the liquidation takes place and the composition of the liquidation committee shall be determined by way of an ordinary resolution at a general meeting. If the Company fails to establish the liquidation committee within the prescribed time, the creditors may apply to the People's Court for appointment of committee members to proceed with the liquidation.

Where the Company is dissolved pursuant to sub-paragraph (iii) above, the People's Court shall, according to the relevant laws, organize the Shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out the liquidation.

Where the Board decides to liquidate the Company (due to causes other than where the Company has declared itself insolvent), the Board shall, in its notice convening a general meeting, declare that, after having made a comprehensive investigation into the affairs of the Company, the Board is of the opinion that the Company will be able to repay its debts within 12 months upon the commencement of the liquidation.

Upon the passing of the resolution at the general meeting for the liquidation of the Company, all functions and powers of the Board of the Company shall cease forthwith.

The liquidation committee shall act in accordance with the instructions of the general meeting and report at least once a year to the general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report before the general meeting on completion of the liquidation.

The liquidation committee shall give notices to the creditors within ten days after its establishment and issue announcements in the newspaper within 60 days after its establishment. The creditors shall report claims to the liquidation committee within 30 days after the date of the receipt of such notices or within 45 days after the date of the announcement if no notice is received. The claims shall be registered by the liquidation committee according to the law. During the period of declaration of claims, the liquidation committee shall not repay any debts to the creditors.

Other provisions material to the Company and its Shareholders

The Company is a joint stock limited company which has perpetual existence.

Upon the passing of the Articles of Association by a special resolution at the Shareholder's general meeting and the approval of which from the Shandong Office of CBRC, the Articles of Association will come into effect from the date of Listing and trading of the overseas-listed Shares of the Company on The Stock Exchange of Hong Kong Limited. The original Articles of Association of the Company shall be lapsed automatically.

The Articles of Association shall become a legally binding document that regulates the organization and acts of the Company as well as the rights and obligations between the Company and its Shareholders and among the Shareholders inter se from the date on which it becomes effective.

Holders of the ordinary Shares of the Company shall have the following obligations:

- (I) to abide by the Articles of Association;
- (II) to contribute the Share capital according to the number of Shares subscribed by them and the methods of capital contribution;
- (III) not to withdraw their contributed Share capital unless in such circumstances as stipulated by the laws and regulations;
- (IV) not to abuse their Shareholders' rights to harm the interests of the Company or other Shareholders, and not to abuse the independent legal person status of the Company and the limited liability of Shareholders to harm the interests of any creditor of the Company; if a Shareholder of the Company abuses its Shareholder's rights and thereby causes a loss on the Company or other Shareholders, such Shareholder shall be liable for damages in accordance with the law;
- (V) If a Shareholder of the Company abuses the Company's independent legal person status and the limited liability of Shareholders for the purposes of avoiding debts, resulting in materially impairing the interests of the creditors of the Company, such Shareholder shall be jointly and severally liable for the debts owed by the Company; to assume other obligations required by the laws, regulations, regulatory documents and the Articles of Association.

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

In the event that the Company faces business viability and requests for support from holders of Domestic Share, the holders of Domestic Shares are obligated to provide the Company with necessary liquidity support and capital replenishment pursuant to a resolution to be passed at the then Shareholders' general meeting.

Shareholders whose shareholder qualification to be approved by CBRC or its agencies shall also comply with the relevant requirements of CBRC on liquidity support provided by Shareholders of trust companies to trust companies.

Secretary to the Board

The Board shall have a secretary who shall be nominated by the Chairperson and appointed or removed by the Board. The secretary to the Board shall be accountable to the Board and shall be a member of senior management of the Company. The major duties of the secretary to the Board shall include:

- (I) to assist the Directors in handling the daily work of the Board, providing the Directors with, or reminding them of and ensuring that they understand the regulations, policies and requirements of the relevant regulatory authorities in relation to the Company's operation; and to assist the Directors and general manager in complying with the laws, regulations, regulatory documents, the Articles of Association and other relevant provisions when exercising their functions;
- (II) to organize and prepare the documents of general meetings and Board meetings, prepare minutes of meetings and ensure the procedures of such meetings are in compliance with the legal requirements, and be aware of the execution of the resolution by the Board;
- (III) to organize and coordinate information disclosure with the aim of enhancing the transparency of the Company and to prepare and submit the reports and documents required by the regulatory authorities in accordance with laws;
- (IV) to be responsible for matters in relation to investor relations and to liaise with the regulatory authorities, intermediaries, media and other public bodies;
- (V) to assist the Board in drafting and revising documentation for corporate governance of the Company, and to establish a scientific decision-making system and corporate governance procedures;
- (VI) to maintain the registers of members, Directors, Supervisors and senior management members and documents and minutes of general meetings, Board meetings and meetings of special committees under the Board, and to ensure the availability of the relevant minutes and documents of the Company for access by the persons entitled thereto in a timely manner;

(VII) to perform other duties conferred by laws, regulations, regulatory documents, the Articles of Association and the Board.

Board of Supervisors

The Company shall have the board of Supervisors which shall be accountable to the general meeting. The board of Supervisors shall comprise 9 Supervisors, among which, 6 shall be Shareholder representative Supervisors and 3 shall be employee representative Supervisors. The board of Supervisors shall have a chairperson whose appointment and dismissal shall be subject to approval by not less than two-thirds (inclusive) of members of the board of Supervisors. The term of office shall be three years, subject to re-election.

The Shareholders representative Supervisors in the board of Supervisors shall be elected, replaced or dismissed at the general meeting; the employee representative Supervisors shall be elected, replaced or dismissed democratically by the meeting of the employee representatives. The term of office of the Supervisors of each session shall be three years commencing from the date of the passing of the resolution at general meeting or the election at the meeting of the employee representatives, subject to re-election.

The Supervisory Committee shall be accountable to the general meeting and exercise the following functions and powers in accordance with the law:

- (I) to examine the financial conditions of the Company, understand the operating status of the Company, undertake respective confidentiality obligation and, when necessary, appoint a separate accounting firm in the name of the Company to independently review the Company's finances;
- (II) to supervise the Directors and members of senior management of the Company in the performance of their Company duties and to propose the removal of Directors or senior management members who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the Shareholders' general meetings;
- (III) if an act of a Director or a member of senior management of the Company is detrimental to the Company's interests, to require such Director or member of senior management to correct such act;
- (IV) to propose the convening of extraordinary general meetings and, in the event that the Board of Directors fails to perform its duty of convening and presiding over a general meeting in accordance with the PRC Company Law, to convene and preside over such meeting;
- (V) to propose resolutions to general meetings;

- (VI) to coordinate with Directors and members of senior management on behalf of the Company or bring legal proceedings against Directors and members of senior management pursuant to the PRC Company Law;
- (VII) to require Directors or members of senior management to attend meetings of the board of Supervisors and answer inquiries;
- (VIII) to check the financial reports, operation reports, profit distribution plans and other financial materials to be submitted by the Board to general meetings and, in case of any doubt, to engage certified public accountants or practicing auditors in the name of the Company to assist the review where the cost shall be borne by the Company;
- (IX) to elect the chairperson of the board of Supervisors;
- (X) to formulate the Rules of Procedures for the board of Supervisors;
- (XI) to perform other functions and powers as stipulated by the laws and regulations and the Articles of Association.

The board of Supervisors shall convene at least four meetings every year. The notification requirements on convening the meetings of the board of Supervisors are the same as convening the meetings of the Board.

A meeting of the board of Supervisors shall not be conducted unless over two-thirds of Supervisors (including proxies) attended the meeting. Each Supervisor has one vote. Apart from those resolutions required to be passed unanimously by all Supervisors as stipulated by the Articles of Association, other resolutions of the board of Supervisors shall be passed by at least two-thirds of all Supervisors.

Board

The Board shall be accountable to the general meeting and perform the following duties:

- (I) to convene and report its work to Shareholders' general meetings;
- (II) to implement the resolutions of the Shareholders' general meeting;
- (III) to determine operation plans and investment proposals of the Company;
- (IV) to formulate annual financial budget plan and final account plan of the Company;
- (V) to formulate profit distribution plan and plan for recovery of losses of the Company;

- (VI) to formulate proposals for increase or decrease in the registered capital of the Company;
- (VII) to formulate proposals for material acquisition, repurchase of the Company's Shares or merger, separation, dissolution or changes of the form of the Company;
- (VIII) to formulate proposals for the issue of corporate bonds, any types of Shares, warrants or other securities by the Company and the listing of the Company;
- (IX) to decide on the establishment of the Company's internal management authorities and decide on the establishment or cancellation of the Company's branches and other sub-branches;
- (X) to elect the chairperson and vice chairperson of the Board of the Company;
- (XI) pursuant to the nominations of the chairperson of the Board, to appoint or dismiss the General Manager of the Company and secretary to the Board; pursuant to the nomination of the General Manager, to appoint or dismiss the Vice General Manager, Chief Financial Officer and other members of senior management of the Company and to determine their remuneration, reward and penalty;
- (XII) to formulate the Company's basic management system and the terms of reference of special committees under the Board;
- (XIII) to formulate plans for the amendment to the Articles of Association, Rules of Procedures for Shareholders' general meetings and Rules of Procedures of the Board;
- (XIV) to formulate the plan of Company's Share incentive scheme;
- (XV) to manage information disclosure of the Company;
- (XVI) to decide on the establishment of special committees and elect its members;
- (XVII) to determine the Company's risk management system, including risk assessment, financial control, internal audit and legal risk control, and implement the supervision of the system;
- (XVIII) to propose to the general meetings the appointment or replacement of the accounting firm which provides auditing service to the Company for the annual financial statements and decide the auditing charges thereof;

- (XIX) to receive regular or irregular work reports submitted by the General Manager of the Company or members of the senior management of the Company appointed by the General Manager, and to approve the work reports of the General Manager;
- (XX) to consider and approve material changes in accounting policies and accounting estimations;
- (XXI) to determine staff arrangement, remuneration plan and performance examination and assessment plan for members of senior management of the Company;
- (XXII) to consider transactions other than those shall be submitted to general meetings for approval pursuant to the Articles of Association, including material equity investments, debenture investments, purchase of assets, disposal of assets, write-off of assets and external guarantees in proprietary business;
- (XXIII) to consider material connected transactions required to be approved by the Board pursuant to the laws, regulations and listing rules of the place where the Shares of the Company are listed;
- (XXIV) to perform other functions and powers as granted by general meetings and the Articles of Association pursuant to the laws, regulations and listing rules of the place where the Shares of the Company are listed.

Resolutions relating to the above, with the exception of items (V), (VI), (VII), (VIII), (XI), (XIII), (XXII) which shall require the consent of not less than two-thirds of the Directors and shall not be voted by way of written resolutions, shall require the consent of not less than half of the Directors. The Board shall perform its duties pursuant to the State laws, regulations, listing rules of the place where the Shares of the Company are listed, the Articles of Association and resolutions of the Shareholders' general meeting.

Board meetings are divided into regular Board meetings and extraordinary Board meetings. Regular Board meetings shall be convened at least four times a year, but shall not be convened in form of written resolutions.

The chairperson of the Board shall convene an extraordinary meeting of the Board within 10 days from the date of receipt of the following recommendations:

- (I) recommendations jointly raised by more than one-third of the Directors;
- (II) recommendations of the board of Supervisors;
- (III) recommendations of more than half of the independent Directors;
- (IV) when the chairperson considers necessary;

- (V) written recommendations of Shareholders representing over one-tenth of the Shares with voting right;
- (VI) recommendations of the General Manager;
- (VII) other circumstances as stipulated in the Articles of Association.

The Board shall inform the Directors by delivering the notice of the Board meeting by means of telex, telegram, fax, registered letter or email or through appointed personnel not less than seven days in advance (unless otherwise stipulated by applicable laws, regulations, securities regulatory rules and the Articles of Associations for the regular Board meetings). The contents of the notice shall include the time and venue of the meeting, duration, reasons and subject of the meeting, time of issuance of the notice and other relevant meeting documents. The notification period of the extraordinary Board meeting can be exempted with written consent of all Directors.

A Board meeting shall not be conducted unless more than half of the Directors (including those who appoint other Directors to attend the meeting on their behalf) are present. If Directors have significant conflict of interests with the resolutions to be proposed by the Board as considered by the Board, the Board meeting shall not be held unless over half of the Directors with no material interests are present.

Directors shall attend the meetings of the Board in person. If a Director is unable to attend the meeting for any reason, such Director may appoint another Director in writing to vote on behalf of such Director at his/her discretion but such Director shall remain solely responsible for the legal liabilities. A proxy letter shall state the name of the proxy, the scope of the authorization, the authority of the proxy and the period of validity, and also be signed or affixed by the principal and the proxy. The Director voting on behalf of another Director shall exercise his/her power within the scope of authorization. A Director who does not attend a Board meeting in person nor does he/her appoint another Director to vote on behalf on him/her shall be deemed to have waived his/her voting right at the meeting. The number of Board meetings attended by each Director in person every year shall be no less than two-thirds of the total number of Board meetings.

Special Committees under the Board

Strategic and Risk Management Committee, Business Decision Committee, Audit Committee, Trust Committee, Human Resources and Nomination Committee and Remuneration Committee are set up under the Board.

Communist Party Committee

The committee of Shandong International Trust Co., Ltd. of the Committee of the Communist Party of China (hereinafter referred to as the "Party Committee of the Company") is set up by the Company. With relevant sound and improved rules and

regulations, which clarifies the responsibilities of the Party Committee of the Company, shareholders' general meetings, Board of Directors, board of Supervisors and the management, the Company has included various aspects in the management mechanism, management system and work standards, such as structure setting, division of responsibilities, personnel allocation, missions and working funds of the Party Committee of the Company, and established a corporate governance mechanism featuring own duties and responsibilities, coordinated functioning and proper checks and balances among each other. The Company has set up a decision-making mechanism for resolutions of the Party Committee, which defines the scope and procedures of decision-making and the participation in decision-making on material issues of the Party Committee of the Company.

Settlement of Disputes

The Company complies with the following rules for settlement of disputes:

- (I) Any dispute or claim of rights relating to the affairs of the Company and arising between holders of overseas-listed Shares and the Company, or between holders of overseas-listed Shares and Directors, Supervisors, General Manager or other senior management of the Company, or between holders of overseas-listed Shares and holders of Domestic Shares, and arising as a result of the rights and obligations provided for in the Articles of Association, the PRC Company Law and other relevant laws, administrative requirements, shall be referred to arbitration by parties involved.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, where the persons being the Company or Shareholders, Directors, Supervisors, General Manager or other senior management members of the Company, shall comply with the arbitration.

Disputes in respect of the definition of Shareholders and disputes in relation to the register of members need not be resolved by arbitration.

- (II) A claimant may elect for arbitration to be carried out at either the CIETAC in accordance with its arbitration rules or the HKIAC in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If the claimant elects for arbitration to be carried out at the HKIAC, any party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

- (III) The resolution of any dispute or claim of rights referred to in item (i) above by arbitration is subject to the PRC laws, unless otherwise required by laws and administrative regulations.

- (IV) An arbitral award made by the arbitral body shall be final and binding on the parties.

- (V) Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct public hearings and to publish its award.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Establishment of Our Company**

Our Company was established in the PRC on March 10, 1987 and converted into a joint stock company with limited liability under the PRC Company Law on July 30, 2015. Our registered address is at No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, PRC. We have established a place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 6, 2016. Ms. Lai Siu Kuen has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As we were established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain aspects of the relevant laws and regulations of the PRC, and a summary of certain provisions of our Articles of Associations are set out in Appendices IV and V to this prospectus, respectively.

2. Changes in the Share Capital of Our Company

There is no change in our share capital during the two years preceding the date of this prospectus.

When the Company was converted into a joint stock limited liability company, our initial registered capital was RMB2,000,000,000, divided into 2,000,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up.

Immediately following the completion of the Global Offering but without taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option, our registered capital will increase to RMB2,588,250,000, comprising 1,941,175,000 Domestic Shares and 647,075,000 H Shares fully paid up or credited as fully paid up, representing approximately 75% and 25% of our registered capital, respectively.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company during the two years preceding the date of this prospectus.

3. The Shareholders' Resolutions of Our Company

At the 2016 annual general meeting of our Company held on May 4, 2016, among other things, the following resolutions were passed by the Shareholders of our Company:

- (a) the Global Offering has been approved and the Board has been authorized to apply for the listing of H Shares on the Stock Exchange as well as to approve matters in relation to the Global Offering;
- (b) the issue by our Company of the H Shares of nominal value of RMB1.00 each up to 676,470,000 H Shares in total and such H Shares to be listed on the Stock Exchange;
- (c) subject to the completion of the Global Offering, the Articles of Association have been approved and adopted, which shall only become effective on the Listing Date;
- (d) the Board has been authorized to revise and amend the Articles of Association in accordance with laws, regulations, requirements and suggestions of related governmental authorities and regulatory authorities; and
- (e) the Board has been authorized to draft, sign, execute, implement, revise, and complete the applications, memos, reports, and all other necessary documents for submission to the relevant domestic and overseas authorities, governmental authorities, regulatory authorities, institutions or individuals and to deal with approval, registration, filing, verifications or other formalities in relation to the Global Offering.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company within the two years preceding the date of this prospectus and are or may be material:

- (a) the asset transaction contract between the Company and Shandong Luxin Energy Investment & Management Co., Ltd. dated August 22, 2016, pursuant to which the Company acquired part of the office building located at No. 166 Jiefang Road, Lixia District, Jinan, from Shandong Luxin Energy Investment & Management Co., Ltd. for a consideration of RMB97,260,600;
- (b) the Non-competition Undertaking;
- (c) the Hong Kong Underwriting Agreement;

- (d) a cornerstone investment agreement dated November 23, 2017, entered into between the Company, Jinan Finance Holding Group Co., Ltd. (濟南金融控股集團有限公司), CCB International Capital Limited, BOCOM International (Asia) Limited, Haitong International Capital Limited, BOCOM International Securities Limited and Haitong International Securities Company Limited, pursuant to which Jinan Finance Holding Group Co., Ltd. agreed to purchase at the Offer Price 129,400,000 H Shares;
- (e) a cornerstone investment agreement dated November 24, 2017, entered into between the Company, ICBC Asset Management Scheme Nominee (中國工商銀行股份有限公司－理財計劃代理人), CCB International Capital Limited, BOCOM International (Asia) Limited, Haitong International Capital Limited, BOCOM International Securities Limited, Haitong International Securities Company Limited and ICBC International Capital Limited, pursuant to which ICBC Asset Management Scheme Nominee agreed to purchase at the Offer Price such number of H Shares as may be purchased with the Hong Kong dollar equivalent of RMB243,000,000, rounded down to the nearest whole board lot of 1,000 H Shares;
- (f) a cornerstone investment agreement dated November 23, 2017, entered into between the Company, Shandong Development & Investment Holding Group Co., Ltd (山東發展投資控股集團有限公司), CCB International Capital Limited, BOCOM International (Asia) Limited, Haitong International Capital Limited, BOCOM International Securities Limited and Haitong International Securities Company Limited, pursuant to which Shandong Development & Investment Holding Group Co., Ltd agreed to purchase at the Offer Price such number of H Shares as may be purchased with the Hong Kong dollar equivalent of RMB200,000,000, rounded down to the nearest whole board lot of 1,000 H Shares;
- (g) a cornerstone investment agreement dated November 24, 2017, entered into between the Company, China Merchants Bank Co., Ltd. Asset Management (招商銀行股份有限公司資產管理部), CCB International Capital Limited, BOCOM International (Asia) Limited, Haitong International Capital Limited, BOCOM International Securities Limited, Haitong International Securities Company Limited and CMB International Capital Limited, pursuant to which China Merchants Bank Co., Ltd. Asset Management agreed to purchase at the Offer Price such number of H Shares as may be purchased with the Hong Kong dollar equivalent of US\$21,000,000, rounded down to the nearest whole board lot of 1,000 H Shares; and

- (h) a cornerstone investment agreement dated November 23, 2017, entered into between the Company, Shandong Guohui Investment Co., Ltd (山東國惠投資有限公司), CCB International Capital Limited, BOCOM International (Asia) Limited, Haitong International Capital Limited, BOCOM International Securities Limited and Haitong International Securities Company Limited, pursuant to which Shandong Guohui Investment Co., Ltd agreed to purchase at the Offer Price such number of H Shares as may be purchased with the Hong Kong dollar equivalent of RMB100,000,000, rounded down to the nearest whole board lot of 1,000 H Shares.

2. Our Intellectual Property Rights






As of the Latest Practicable Date, we have the following intellectual property rights which we consider to be material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, our Company has applied for the registration of the following trademarks which are material in relation to our Company's business:

No.	Proprietor	Trademark	Place of Application	Class	Date of Application	Application Number
1.	our Company	山东国信	Hong Kong	36	November 13, 2017	304333103
2.	our Company	山東國信	Hong Kong	36	November 13, 2017	304333112
3.	our Company	SITIC	Hong Kong	36	November 13, 2017	304333121
4.	our Company	SDITC	Hong Kong	36	November 17, 2017	304339288

As of the Latest Practicable Date, our Company has been licensed by Lucion Group to use the following registered trademarks:

No.	Licensor	Licensee	Trademark	Place of Registration	Registration Number	License Period	Scope of License
1.	Lucion Group	our Company		China	4218315	June 30, 2016 to December 31, 2020	non-exclusive and non-transferable use
2.	Lucion Group	our Company		China	4218302	June 30, 2016 to December 31, 2020	non-exclusive and non-transferable use
3.	Lucion Group	our Company	LUCION	Hong Kong	303675358	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use
4.	Lucion Group	our Company		Hong Kong	303675349	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use
5.	Lucion Group	our Company	LUXIN	Hong Kong	303675330	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use
6.	Lucion Group	our Company		Hong Kong	303705174	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use
7.	Lucion Group	our Company	LUCION 	Hong Kong	303705165	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use

No.	Licensor	Licensee	Trademark	Place of Registration	Registration Number	License Period	Scope of License
8.	Lucion Group	our Company	鲁信	Hong Kong	303705156	July 14, 2016 to December 31, 2020	non-exclusive and non-transferable use
9.	Lucion Group	our Company	LUCION 鲁信	China	17142774	June 30, 2016 to December 31, 2020	non-exclusive and non-transferable use
10.	Lucion Group	our Company	LUCION 鲁信	China	18764924	June 30, 2016 to December 31, 2020	non-exclusive and non-transferable use
11.	Lucion Group	our Company	鲁信 LUXIN	China	20264918	July 28, 2017 to July 27, 2027	non-exclusive and non-transferable use

(b) Domain Names

As of the Latest Practicable Date, our Company has registered the following key domain names:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	sitic.com.cn	our Company	October 28, 1999	October 28, 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, OUR SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS**1. Disclosure of Interests*****(a) Interests of the Directors, Supervisors and the Chief Executive of Our Company***

Immediately following the completion of the Global Offering and without taking into account any H Shares which may be issued pursuant to the exercise of the Over-allotment Option, so far as our Directors are aware, none of the Directors, Supervisors and chief executive of our Company will have any interests and short positions in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors and the chief executive), in each case once our H Shares are listed.

(b) Interests of the Substantial Shareholders

Save as disclosed in “Substantial Shareholders,” our Directors or chief executive are not aware of any other person, not being a Director, Supervisor or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the H Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

2. Directors’ and Supervisors’ Service Contracts

Each of our Directors has entered into a service contract with our Company on November 16, 2017. The principal particulars of these service contracts are (a) for a term of 3 years commencing from their respective effective date of appointment until the day on which the next general meeting of the shareholders for re-election of Directors is held, and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Each of the Supervisors has entered into a contract with our Company on November 16, 2017, in respect of, among others, compliance with relevant laws, regulations, the Articles of Association and applicable provision on arbitration.

Save as disclosed above, none of our Directors or Supervisors has entered into, or has proposed to enter into, a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' and Supervisors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors and Supervisors for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 was approximately RMB7.4 million, RMB6.7 million, RMB6.4 million and RMB3.4 million, respectively, which included the aggregate contributions we paid to pension schemes for our Directors and Supervisors in respect of the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 of approximately RMB0.3 million, RMB0.4 million, RMB0.3 million and RMB0.08 million, respectively.

Save as disclosed in this prospectus, no other amounts have been paid or are payable by us to our Directors and Supervisors for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017.

Pursuant to the existing arrangements that are currently in force as of the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors and Supervisors by our Company for the year ending December 31, 2017 is estimated to be approximately RMB6.1 million in aggregate.

4. Directors' Competing Interest

Save as disclosed in "Relationship with Our Controlling Shareholders — Competing Interests", none of our Directors is interested in any business apart from our business which competes or is likely to compete, directly or indirectly, with the business of our Company.

5. Personal Guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

6. Agency Fees or Commissions Received

Save in connection with the Underwriting Agreements, none of our Directors, Supervisors, Promoters nor any of the parties listed in the paragraph headed “D. Other Information — 5. Qualification of Experts” in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of our Company within the two years preceding the date of this prospectus.

7. Related Party Transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in the Accountant’s Report set out in Appendix I to this prospectus.

8. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors, Supervisors or chief executive of our Company has any interests and short positions in the shares, underlying shares and debentures of our Company or our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to our Company and the Stock Exchange, in each case once our H Shares are listed on the Stock Exchange. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings, once our H Shares are listed on the Stock Exchange;
- (c) none of our Directors or Supervisors nor any of the parties listed in “D. Other Information — 5. Qualification of Experts” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company, or are proposed to be acquired or disposed of by or leased to our Company;

- (d) save in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in “D. Other Information — 5. Qualification of Experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Company;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in “D. Other Information — 5. Qualification of Experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company; and
- (f) none of our Directors or Supervisors or their respective associates (as defined under the Listing Rules) or any Shareholders (who to the knowledge of the Directors owns more than 5% of our issued share capital) has any interest in our five largest trust schemes.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC Law is likely to fall on our Company.

2. Litigation

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in “Business — Legal and Regulatory Proceedings — Litigations and Arbitrations”, our Company was not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on its business, financial condition or results of operations.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our H Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS. The Joint Sponsors are entitled to a fee of RMB6,000,000 in aggregate for acting as our sponsors.

BOCOM International (Asia) Limited and Haitong International Capital Limited, each being a Joint Sponsor, satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. CCB International Capital Limited as one of the Joint Sponsors does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules, see “Underwriting — Independence of the Joint Sponsors” for details regarding the independence of CCB International Capital Limited.

4. Preliminary Expenses

Our estimated preliminary expenses are insignificant.

5. Qualifications of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
CCB International Capital Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BOCOM International (Asia) Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Haitong International Capital Limited	Licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants, Hong Kong
Fangda Partners	PRC legal advisor

6. Consents of Experts

Each of the experts as referred to in “D. Other Information — 5. Qualifications of Experts” in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion (as the case may be) and references to its name included herein in the form and context in which they respectively appear.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in our Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

7. Promoters

The Promoters are Lucion Group, CNPC Assets Management, Shandong High-Tech Venture Capital, Shandong Gold Group, Jinan Energy Investment, and Weifang Investment. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to the Promoters named above in connection with the Global Offering and the related transactions described in this prospectus.

8. Particulars of Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
Shandong Luxin Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司)	40,748,567	46,859,641	Its principal business scope includes external investment (other than in the sectors restricted by the laws and regulations) and management, investment consulting (excluding consulting with respect to securities and futures), asset management and asset custody business, capital operation, guarantee (excluding financing guarantee business); hotel management, premises renting and property management.	No. 166 Jiefang Road, Lixia District, Jinan, Shandong Province, PRC
			(With respect to the items subject to an approval according to law, no business activities may be conducted until such approval has been obtained from the relevant authorities.)	

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
CNPC Assets Management Co., Ltd. (中油資產管理 有限公司)	14,706,250	16,911,750	Its principal business scope includes asset operation and management; investment; development and transfer of high and new technologies; enterprise financial and capital operation planning and consulting; economic information consulting and services.	No.9 Dongzhimen North Street, Dongcheng District, Beijing, PRC
			("1. Without the approval by the relevant authorities, the company may not conduct public fundraising activities; 2. The company shall not conduct securities products and financial derivatives dealings publicly; 3. The company shall not extend any loans; 4. The company shall not provide guarantees in favour of any enterprises other than its invested enterprises; 5. The company shall not undertake to its investors that the principal of their investment will suffer no loss or promise a minimum return to its investors"; the company shall select its business items on its own and carry out its business activities according to law; with respect to the items subject to an approval according to law, business activities shall be conducted after the obtaining of such approval and in compliance with such approval; the company shall not engage in any business activities with respect to any items prohibited or restricted by the industrial policy of the city.)	

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
Shandong Gold Group Co., Ltd. (山東黃金集團 有限公司)	1,348,073	1,550,243	<p>Its principal business scope (to be conducted by its subsidiaries only) includes gold geological exploration and exploitation; gold mine power supply; car renting (term of validity subject to the license). Purification, processing, manufacturing and sale of gold and jewelry ornaments; gold dressing and smelting and technical services; purification, processing, manufacturing and sale of precious and non-ferrous metal products; manufacturing and sale of special gold mine equipment and supplies and construction materials; equipment repair; approved import-export business and processing of imported materials, the three-processing and one compensation business (i.e., processing of supplied materials, processing with given samples, assembling of supplied components and compensation trade); computer software development; enterprise management and accounting consulting, property management.</p> <p>(With respect to the items subject to an approval according to law, no business activities may be conducted until such approval has been obtained from the relevant authorities.)</p>	Building 3, Shuntai Square, No.2000 Shunhua Road, Jinan, Shandong Province, PRC
Jinan Energy Investment Co., Ltd. (濟 南市能源投資 有限責任公 司)	1,011,055	1,162,683	<p>Its principal business scope includes operation and management of power construction funds and energy capital; energy construction project budget examination and relevant business consulting services; oversight and administration of the asset benefit, major decisions, selection of managers and operating activities of its subsidiaries with respect to the state-owned assets within its scope of authority based on the relation between ownership and management of enterprises.</p> <p>(With respect to the items subject to an approval according to law, no business activities may be conducted until such approval has been obtained from the relevant authorities.)</p>	Jihua Mansion, No.19 Yingxian Street, Tianqiao District, Jinan, Shandong Province, PRC

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
Weifang Investment Group Co., Ltd. (潍坊市投資集團有限公司)	1,011,055	1,162,683	Its principal business scope includes investment of self-owned capital in the energy industry, infrastructure, high and new technologies, manufacturing industry, venture capital investment, real estate, cultural, tourism, catering, logistics, trade and business industries and asset management; social and economic consulting; property management; premises renting. (Without the approval by the financial regulatory authorities, the company shall not engage in the money deposits acceptance, financing guarantee, entrusted financial management or other financial business. (With respect to the items subject to an approval according to law, no business activities may be conducted until such approval has been obtained from the relevant authorities).	Floor 16-18, Investment Mansion, No.6222, East Wind East Street, High-tech Development Zone, Weifang, Shandong Province, PRC

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since May 31, 2017 (being the date to which the latest audited financial statements of our Company were prepared).

11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company fully or partly paid up either for cash or for a consideration other than cash has been issued or agreed to be issued;
 - (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company;
 - (iv) no founder, management or deferred shares of our Company have been issued or agreed to be issued;
 - (v) our Company has no outstanding convertible debt securities or debentures; and
 - (vi) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus.
- (c) None of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (d) All necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement.
- (e) We currently do not intend to apply for the status of a foreign invested joint stock limited company and do not expect to be subject to the PRC Sino-foreign Joint Venture Law.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were; (a) copies of the **WHITE, YELLOW** and **GREEN** application forms; (b) the written consents referred to in “D. Other Information — 6. Consents of Experts” in Appendix VI; (c) copies of the material contracts referred to in “B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix VI; and (d) the statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Simpson Thacher & Bartlett at 35th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the audited consolidated financial statements of the Group for the years ended December 31, 2014, 2015 and 2016, and the five months ended May 31, 2017;
- (c) the accountant’s report for the years ended December 31, 2014, 2015, 2016 and the five months ended May 31, 2017 issued by PricewaterhouseCoopers, Certified Public Accountants, the text of which is set out in Appendix I;
- (d) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, Certified Public Accountants, the text of which is set out in Appendix II;
- (e) the material contracts referred to in “B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix VI;
- (f) the written consents referred to in “D. Other Information — 6. Consents of Experts” in Appendix VI;
- (g) the service contracts referred to in “C. Further Information About our Directors, our Supervisors and Substantial Shareholders — 2. Directors’ and Supervisors’ Service Contracts” in Appendix VI;
- (h) the PRC legal opinions dated November 28, 2017 issued by Fangda Partners, our PRC legal advisor, in respect of certain aspects of our Company and our property interests;

- (i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translation; and
- (j) the statement of particulars of the Selling Shareholders.



山東省國際信託股份有限公司
Shandong International Trust Co., Ltd.